Inter-American Investment Corporation

Annual Report 2000

With a special section on
environmental management
in the financial sector

Charts

Enrique V. Iglesias

February 2, 2001

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

Dear 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 2000 and the audited financial statements, including the balance sheet, income and retained earnings statement, and cash flow statement for the fiscal year ending December 31, 2000.

The Corporation is receiving the first installments of its capital increase and has made the organizational changes requested by its member countries for the productive deployment of this new funding over the next ten years to the benefit of the region's small and medium-size enterprises. The strengthened Corporation will increase its contribution to the achievement of the IDB Group's objectives, making optimum use of the expertise of its professional staff in the design, evaluation, and execution of projects that have a private sector focus.

Sincerely,

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

Jacques Rogozinski

THE REGION: ECONOMIC OVERVIEW As they entered the new millennium, most of the countries of Latin America and the Caribbean had managed to recover from the external shocks that affected their economies during the past twelve months. Their commitment to the relatively speedy design and implementation of economic measures that would spur recovery from the previous year's stagnation was decisive in the return to high levels of foreign investment that boosted economic expansion by year end.

In many cases, the strength of the economic recovery was closely linked to decisions made at the national level that allowed domestic economic structures to adapt quickly to the shifting international situation. Moreover, as the Inter-American Development Bank (IDB) notes in its annual report for 2000, the external environment was favorable for the region, due chiefly to the growth of the U.S. economy, the rise in the price of oil and other goods, and reasonable conditions for tapping the international capital markets. The IDB does point out, though, that rising interest rates and U.S. stock market instability increased costs and made it more difficult for many Latin American countries to access international financing.

According to IDB calculations, the region closed the year with an average growth of more than 4 percent compared to 0.3 percent in 1999. This growth, albeit significant, is still below the 5.5 percent average posted during the three decades prior to the debt crisis. This rapid recovery was made possible by the fiscal and exchange adjustment measures begun in 1999, which further reduced rates of inflation and helped lower domestic interest rates. Worthy of note are the fiscal responsibility legislation adopted by several countries and the privatization and government modernization processes ongoing in most.

For 2001, the IDB predicts that, considering the macroeconomic and structural policies currently in place in Latin America and the Caribbean, growth could continue at 4.0 percent to 4.5 percent per annum. Nevertheless, the IDB warns that in order to achieve higher rates of growth most of the region's countries need to adopt further measures in the fiscal arena and in the fight against corruption.

The region's small and medium-size companies—with their considerable capacity to generate employment and foreign currency income—can help consolidate this promising outlook if they gain greater access to affordable financing, world-class technology, and managerial and technical know-how. The role of the IIC is to help them do so.

The IIC's Role in the Region In sectors and areas where credit or capital is hard to obtain on reasonable terms, the Corporation will continue to provide small and medium-size companies with financing that will help them to grow and prepare themselves to access formal financial markets. Key to achieving this goal will be tools that enable the IIC to reach the greatest possible number of such companies; the financial intermediation program and IIC investments in private equity funds are good examples. The Corporation's equity investment activities will continue to focus primarily on such funds or similar vehicles that can provide needed growth capital while opening the ownership structure to other investors that can supply additional capital resources and provide managerial and technical know-how. In doing so, the Corporation also will strive to achieve its other goals: promote exports and technology and infrastructure modernization, and protect the environment. The IIC will also make direct equity investments in individual companies, including financial institutions in cases where this is the most effective means of meeting the investment needs of small and medium-size companies.

Investments in Private Equity Funds

Number of private equity funds in which IIC has invested	25
Total IIC investment	$140 million
Total capitalization of investee funds	$1.7 billion
End beneficiaries	142 companies in 18 countries

These companies need stable sources of funding such as the IIC to allow them to succeed in their efforts to contribute to sustainable economic growth. The economic transition of Latin America and the Caribbean is far from over, and the second generation of reforms has yet to be tackled. Despite the better long-term outlook, some serious issues need to be addressed—including continued high levels of debt, high unemployment, and uneven sectoral development.

The Corporation

This year the Corporation began to receive the first installments of the $500 million capital increase approved by its member countries in 1999. It also worked towards meeting the goals set in the three-year business plan that accompanied the capital increase.

The IIC began preparing to efficiently and productively utilize the additional capital resources entrusted to Management and the Board for the next decade, devoting significant resources to identifying and implementing procedures to increase administrative and operational efficiency.

The IIC also prepared to utilize its additional capital by stepping up its business development activities. IIC officials fanned out, attending more than fifty seminars, conferences, and speaking engagements in regional and nonregional countries alike and making more than 200 business development trips. Some of these trips were made in conjunction with the IDB. As a result, 626 potential projects were identified in 21 countries; 420 were not considered because they did not meet basic IIC criteria regarding size, additionality, or perceived risk, among others. The remaining 206 passed on to a second phase. As a result, nineteen transactions were submitted for consideration and approval by the Board of Executive Directors. This marketing effort will continue, targeting prescreened companies that meet IIC's financial and development selection criteria.

The productive deployment of the IIC's increased funding calls for innovation as well, because as the region's economies evolve they will require new financial products along the way. Many of the operations approved this year are firsts, either for the IIC or for the region as a whole: telecommunication services and transfer of technology and equipment to the Costa Rican telecommunications sector; mortgage-backed securities for medium- and low-income housing in Brazil; a fund that will invest in securities issued by privately held small and middle-market media and telecommunications companies throughout the region; and funding for a hospital in Mexico that provides charity services and in-house training and research programs.

Portfolio and Credit Risk Management Effective, productive deployment of the resources provided by the IIC's shareholders involves sound portfolio management that takes into account primarily the two types of risk to which the IIC's project companies are subject: macroeconomic risk and credit risk.

Macroeconomic risk is largely beyond the control of the IIC and its clients. However, the evaluation process prior to project approval takes this risk into account and is geared to avoiding situations in which the potential risks would make it virtually impossible to attain the IIC's developmental goals. After project approval, project companies should be better armed to withstand macroeconomic shocks because IIC financing will have helped them to become more competitive, provide a much-needed service or product, increase their foreign currency income, strengthen their capital structure, or acquire managerial know-how and the latest technology.

Management of project company credit risk is designed to provide for risk identification, measurement, monitoring, and control.

Project Supervision and Problem Project Management Project supervision is the task of the Operations Divisions. At least one annual review is carried out for every IIC loan and investment. Problem projects are transferred from Operations to the Special Operations Unit, which is responsible for maximizing cash recovery of problem loans and investments.

The Special Operations Unit also contributes to the prevention and early detection of problem projects by participating in the Operations Committee and the Portfolio Supervision Committee. The unit also advises project officers on projects that are experiencing initial problems and regularly reports to the officers on the lessons learned from problem project companies.

On a higher level, a Special Ad-Hoc Committee of the Board of Directors provides a forum for discussing workout action plans at an early stage. Through the Committee, the IIC keeps its Executive Directors informed and seeks their guidance at critical junctures of negotiations with impaired project companies.

Fiscal 2000 In 2000 the IIC's Board of Directors approved nineteen projects in eight countries totaling $143 million. Twenty-five percent of the funds approved were for equity investments and 75 percent were for loans. Five of the six equity investments went to developmentally-oriented country or regional investment funds. These funds have a total capitalization of $854 million, providing a 25:1 leverage of the IIC's own equity investments for the year. Two of the loans will be cofinanced; these operations will use $20 million of the Corporation's own resources to mobilize a total of $30 million in funding from banks and other third parties. Close to 50 percent of the total amount approved this year will go to the smaller countries in the region.

IIC income from all sources in 2000 amounted to $34.2 million. Income from lending operations totaled $26.1 million ($24.6 million from interest and $1.5 million from fees). Capital gains and dividend income from the equity investment portfolio totaled $1.5 million for the year. Total expenses, including $9.8 million in provisions, were $33.6 million, producing a net profit of $590,000.

Developmental Impact The IIC's activities to promote the economic development of Latin America and the Caribbean continue to yield positive results. It is expected that year 2000 approvals will lead to the creation of more than 10,000 jobs, generate annual exports worth $93 million, and contribute $423 million per year to the region's gross domestic product. The $143 million approved in 2000 will support the implementation of projects with a total cost of $1.3 billion. For every dollar earmarked by the

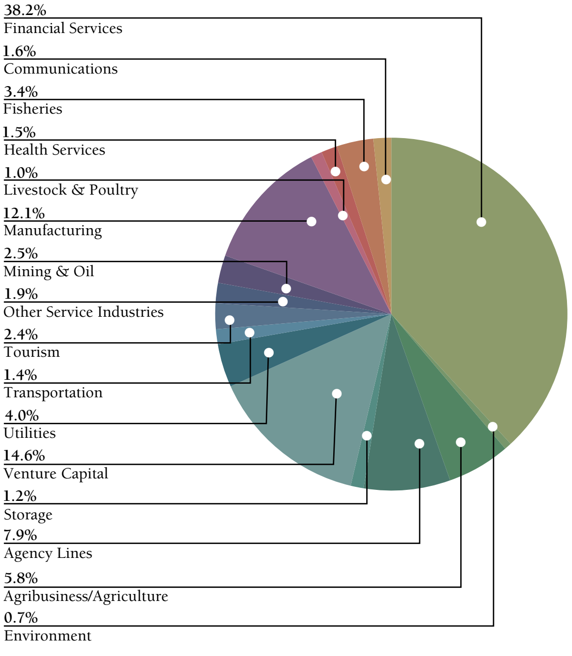
Corporation for 2000 approvals, nine dollars will go to investment projects.

Cumulatively, the IIC has channeled funding to more than 2,400 companies in the productive and service sectors in Latin America and the Caribbean since it began operations in 1989. Projects with an aggregate cost in excess of $8 billion have been undertaken thanks to the $685 million in funding provided by the IIC in the form of loans and equity investments, plus $391 million in funds that the Corporation has mobilized through cofinancing arrangements. For each dollar that the IIC has invested, eleven dollars are going to companies that have created about 130,000 jobs and generate $1.3 billion in foreign currency for the region each year. Operations in countries with larger economies amount to $518 million, while those in the smaller economies of the region total $429 million, i.e., 55 percent and 45 percent of the portfolio, respectively. Projects with regional coverage total $155 million. Of the IIC's committed investments, 84 percent had been fully disbursed by December 31, 2000.

IDB Group Cooperation Combined action by the institutions that make up the IDB Group can be a powerful agent for development in Latin America and the Caribbean. The general thrust of IIC's coordination with the IDB is in the development of the private sector segments of country strategies and programming. To this end the IIC participates in the Private Sector Coordination Committee. IIC's Senior Credit Officer advises the IDB's Executive Vice President regarding IDB Private Sector Department projects. IIC staff members also serve on the Private Sector Department's Credit Review Group and on the Bank's loan committee for private sector operations. And the IIC's Operations Committee is also the "operations committee" for Multilateral Investment Fund operations in the latter's equity investment approval process.

Approvals by Sector

(As of December 31, 2000)



Multilateral Investment Fund The Multilateral Investment Fund (MIF) was established in 1992 to promote the economic and social viability of market economies in Latin America and the Caribbean. The MIF is administered by the Inter-American Development Bank and engages the IIC for investment project appraisal services. In 2000 the Corporation carried out eleven advisory assignments for the MIF related to its support for small and microenterprise development. Four operations involved equity investment initiatives that are regional in scope. The others were evaluations of MIF-supported investment funds in Brazil, Chile, Mexico, and Trinidad and Tobago.

AIG-GE Capital Latin American Infrastructure Fund The IIC also lent its regional expertise as an adviser to the Emerging Markets Partnership for its fund investments in infrastructure companies in Latin America, chiefly in the power, transportation, and telecommunications sectors. Emerging Markets Partnership is the principal adviser to the AIG-GE Capital Latin American Infrastructure Fund (LAIF). During the year, the IIC provided advisory services for eighteen projects and monitored seventeen more.

Other Special Funds In 2000 the Corporation conducted ten studies with support from the Swiss Fund, the Spanish Trust Fund, the United States Trade Development Agency's Evergreen Fund, the Italian Trust Fund, and the United Nations Program for the Environment. Some $126,000 in technical cooperation funds were channeled through the IIC during 2000.

Institutional Affairs

Credit Rating In December, Standard & Poor's assigned its AA counterparty rating to the IIC. According to Standard & Poor's, the rating is supported by

- the IIC's robust policy purpose;
- strong membership support for the IIC's mission;
- membership in and strong support from the Inter-American Development Bank Group, which should enable the IIC to continue to receive treatment as a preferred creditor; and
- a strong capital position.

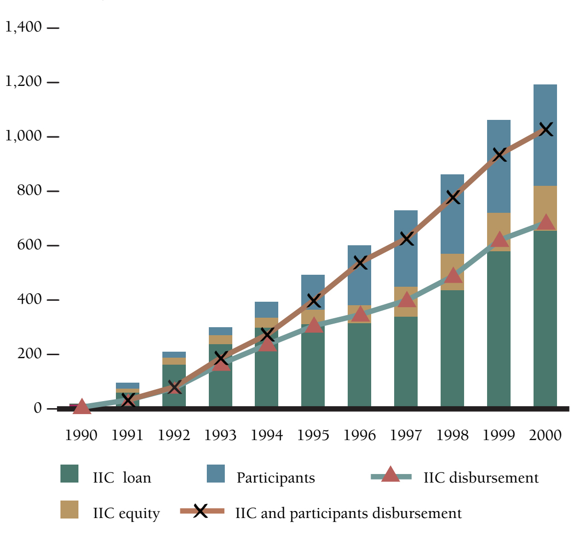
The AA rating will enable the IIC to mobilize additional funding from the financial markets in support of its developmental mission.

Caja Madrid Loan Also in December, the IIC and Caja Madrid signed a two-year $50 million revolving credit facility. The IIC will use the facility—the fourth signed with Caja Madrid—to fund loan disbursements to developmental projects in Latin America and the Caribbean.

The Partnership Grows The Board of Governors reached an agreement that will allow the institution to welcome five new countries as members of the Corporation. Belgium, Finland, Norway, Portugal, and Sweden will soon be admitted to the IIC, thus increasing the number of member countries to forty-two.

Finpyme The Corporation launched a new initiative for the promotion of its activities that will help boost its project identification process. The Finpyme program will introduce a proven methodology that will help the IIC in its efforts to identify companies that have a good track record and investment projects that require long-term financing. The program also will allow the Corporation to gather important information about the business and regulatory environment in which small and medium-size companies operate in the region. Finpyme will be implemented on a pilot basis in Bolivia and in Chile. Once its results are evaluated, the program may be extended to other regional economies.

Committed Portfolio, Cumulative
(As of December 31, 2000)



Caribbean Cooperation Agreement The Inter-American Investment Corporation and the Centre for the Development of Industry (CDI) signed a cooperation agreement for supporting the development of private sector companies in the Caribbean countries of Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago. The CDI is financed by the European Development Fund under the Lomé Convention. Its objective is to encourage and support the creation, expansion, and restructuring of industrial companies in African, Caribbean, and Pacific countries.

Environmental Issues In May in Miami, and in October in Buenos Aires (cosponsored by Banco de Galicia y Buenos Aires), representatives from seventeen financial institutions from ten Latin American and Caribbean countries attended IIC-sponsored environmental management workshops. All financial intermediaries with which the IIC operates are required by contract to attend these workshops, to learn how to integrate environmental management practices in their own operations and turn good environmental practices into competitive advantages.

The workshops focus on banks' responsibility in monitoring the environmental aspects of projects they finance with IIC funds. The chapter on environmental management in the financial sector in this annual report provides more details on this key component of sustainable development.

Representatives from Conservation International, International Expeditions Inc., and the Institute for Policy Studies gave separate talks at the IIC explaining the role of ecotourism in sustainable economic development and the problems they face in raising funding for ecotourism projects. These ongoing talks are part of a joint IIC/IDB effort to increase awareness about profitable yet sustainable alternatives to traditional tourism.

2000 Annual Meeting The XV Annual Meeting of the Board of Governors took place in New Orleans, Louisiana, United States of America, from March 27 to 29, 2000. During this meeting, the Governors approved the IIC's financial statements for the year ended December 31, 1999, as well as the Corporation's annual report. Prior to the meeting, the IIC hosted a seminar on the role of commercial banks in lending to small and medium-size companies, cosponsored by Bank One.

Looking Ahead

It is a privilege to have been appointed to the post of General Manager of the Inter-American Investment Corporation at an auspicious moment in the organization's history. The member countries recently approved a capital increase demonstrating their commitment to supporting and expanding the IIC's mission in the region. As it is paid in, the capital increase will give the IIC more leverage for catalyzing private sector resources, both foreign and domestic, to help the region's small and medium-size companies gain greater access to much needed long-term financing. At this juncture, I would like to thank the former General Manager, John C. Rahming, for his years of service during the IIC's start-up period.

The IIC will use the additional capital resources to expand its support for small and medium-scale enterprises, helping them grow, prosper, and move towards accessing commercial financial markets as they create jobs, increase their exports, update their technology and infrastructure, and improve their environmental performance.

To achieve these developmental goals, the IIC will continue to make direct loans and equity investments and bolster its financial intermediation and cofinancing programs. Direct equity investments will be made not only in individual companies but also in financial institutions in cases where this is the most effective way to meet the capital needs of the region's small and medium-size companies. The Corporation will also invest in private equity funds or similar vehicles that can provide needed growth capital while opening the ownership structure to other investors that can supply additional capital resources and provide managerial and technical know-how.

Capital market development efforts will also occupy an important place in the IIC's agenda as a way to facilitate access to domestic savings and broaden company ownership.

In 2000, the Corporation worked towards meeting the goals set in the three-year business plan that accompanied the capital increase. This first year of the three-year planning period has been a transition period in the life of the IIC. It was seized as an opportunity to reconfigure the IIC by developing the institutional infrastructure required to make the best developmental use of the additional resources from the capital increase. During this transition period, the Corporation is redefining its priorities, sharpening its focus, and making administrative and operational improvements. It has already introduced organizational, personnel, and procedural changes to more efficiently and productively utilize the additional capital resources entrusted to Management and the Board of Executive Directors for the next decade. In short, the Corporation made substantial progress in building the organizational foundation necessary to increase the quality and quantity of new business while adhering to its developmental mandate and becoming self-sufficient.

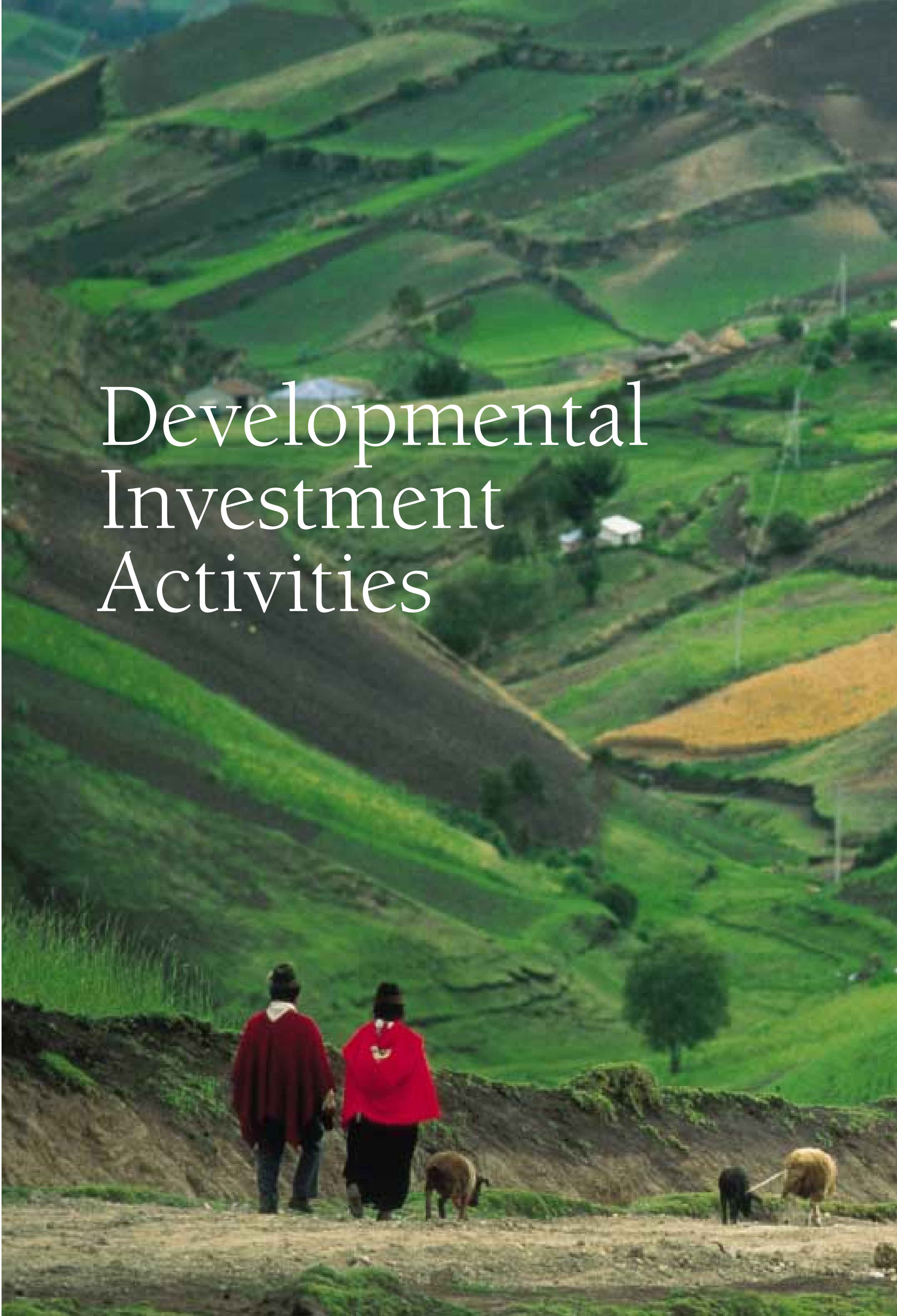
The Corporation's financial health and good prospects were confirmed by Standard & Poor's, the international credit rating agency. In December 2000 the IIC received an AA counterparty rating from Standard & Poor's. The rating will enable the Corporation to diversify its funding sources and borrow on more favorable terms.

Now that the Corporation's funding is of a measure with its developmental mandate and the transition to a more streamlined institutional infrastructure has been completed, it will be able to take full advantage of the flexibility afforded by its small size. It should be able to reach smaller companies and try new ways to bolster sectors and promote concepts that will be key to sustainable development in this new millennium: education, communications technology such as the Internet, and private-sector transparency and good governance.

In the increasingly free-market and private-sector oriented economy of Latin America and the Caribbean, the Corporation must work in these and other ways to help ensure that the potential benefits of this worldwide trend are spread more equitably and reach the smaller economies and less-developed areas as well.

Jacques Rogozinski
General Manager
Inter-American Investment Corporation

Developmental Investment Activities



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

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

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

During the year 2000, the Corporation received 626 funding requests; 420 were not considered because they did not meet basic IIC criteria regarding size, additionality, or perceived risk, among others. Two hundred six proposals were considered at an initial stage. As a result, nineteen transactions were submitted for consideration and approval by the Board of Executive Directors.

Fourteen of the operations described below include loans totaling $107.2 million; six include equity investments totaling $35.5 million. This year's two cofinanced loans will mobilize an additional $30 million in funding, and the five investment funds in which the IIC acquired an equity participation will further leverage the resources available for the region's small and medium-size companies. The total cost of the projects financed as a result of the operations approved by the IIC in 2000 is $1.3 billion.

REGIONAL In the region's larger economies, the demand for fixed and mobile telecom operations exceeds supply, and the cost of long distance calls is still far greater than in other markets. In the Andean region in particular, telephony, cable telephony services, and computer access services are scarce, and the cost of cellular use can be quite high. The rest of Latin America and the Caribbean also provides opportunities because cable data and telephony services are in short supply and there is not enough capital and technological capacity to offer advanced services.

The CEA Latin American Communications Partners, L.P. (CEA) is a $100 million fund that will invest mainly in privately held small and middle-market media and telecommunications companies in Latin America and the Caribbean. The fund will invest in companies in early or expansion stage, with low technological risk. It will focus on fixed-line telephony, mobile telephony, cable and pay television, broadcasting, publishing, outdoor advertising, and Internet commerce and content sectors.

IIC equity investment	$7.5 million
Number of end beneficiaries	10
Job creation	360
Export earnings	$25 million per year
GDP contribution	$100 million per year

The Corporation will also make an equity investment in **The Central America Growth Fund, L.P.**, whose aim is to invest mainly in privately held small and middle-market growth-oriented companies in Central America and Panama. The fund, which has a target capitalization of $50 million, will invest in a broad spectrum of investment opportunities based on regional growth strategies, consolidation of fragmented industries, restructuring or recapturing of opportunities, and medium-size privatization and coinvestment opportunities with strategic investors.

The fund will target companies in the retail, food and beverage processing, manufacturing, media and telecom, tourism, and export industries that need long-term capital for capacity expansion.

IIC equity investment	$5 million
Number of end beneficiaries	10
Job creation	200
Export earnings	$25 million per year
GDP contribution	$100 million per year

In 1996, the Inter-American Investment Corporation made a $5 million equity investment in the Latin American Private Equity Fund, LP, a regional private equity fund managed by Advent International Corporation. This first fund totaled $85 million and mobilized another $375 million to provide funding to small and medium-size enterprises in Brazil, Argentina, and Mexico. The program had a significant impact on employment, tax revenue, and contribution to the gross national product of those countries.

To build on that success, this year the IIC approved a $10 million equity investment in **The Latin American Private Equity Fund II, LP** (Advent II), whose aim is to invest in growth-oriented privately held middle market companies in Latin America. Advent II's total capitalization will be $500 million. By actively participating in Advent II, the IIC will help strengthen and modernize companies in Brazil, Argentina, and Mexico and expects to expand the program to other countries of the region. Through its investments, the fund will help improve corporate governance practices. It will also have an important catalytic effect by attracting other institutional investors and facilitating the flow of fresh capital to the region as has been confirmed by the Advent I program.

IIC equity investment	$10 million
Number of end beneficiaries	20–30
Job creation	400–900
Foreign exchange generation	$5 million– $12 million per year
GDP contribution	$10 million– $24 million per year

BRAZIL

In a pair of innovative operations, the Corporation will help make affordable housing available in Brazil and contribute to the development of the secondary market for mortgage-backed securities.

In the first of the two operations, **Brazilian Mortgages Companhia Hipotecária** (a real estate financing company that provides mortgage loans to middle- and lower-income individuals) will receive a $200,000 subordinated loan from the IIC, and **Brazilian Securities Companhia de Securitização** (a securitization company) will receive a $300,000 subordinated loan and sell the IIC $10 million in mortgage-backed securities.

The two companies will target the residential segment with an average home price of $30,000. Brazilian Mortgages will originate the mortgages and sell them to Brazilian Securities. The latter will issue mortgage-backed securities to the IIC. As the secondary mortgage market develops, the IIC will sell these securities through Brazilian Securities to secondary market investors, including insurance companies and pension funds.

IIC's financing will enable the construction of around 11,000 new homes in São Paulo. The project will also contribute around $28 million annually to Brazil's GDP.

In the second of the two operations, **Serviços Financeiros Imobiliários Ltda.** (SFI) will receive a $1 million subordinated loan from the IIC. SFI services residential mortgage loans for financial institutions, mortgage companies, real estate developers, and Brazilian government agencies. It also provides loan processing and origination services and due diligence reviews to banks.

The IIC loan will enable SFI to expand its operations. Services of this type are an important missing ingredient for the development of the mortgage market in Latin America and perhaps the most important factor in gaining and maintaining investor confidence and attracting capital to the housing sector. Brazil needs financial alternatives to meet the growing demand for housing, particularly in the low- and middle-income segments. The IIC is contributing by supporting a company that provides high quality, independent mortgage servicing that is otherwise unavailable in Brazil, and that is a crucial element in the development of a secondary mortgage market.

CHILE **Banco del Desarrollo** is one of the principal Chilean banks for the financing of microenterprises and small and medium-size companies. The bank plans to increase its share of small and medium-size company financing and wants to develop new products to serve microentrepreneurs, continue financing middle- and low-cost housing, and bring service to low-income individuals.

The Board of Executive Directors of the Corporation authorized an agency line with Banco del Desarrollo under which the Corporation will provide $10 million and the bank will provide $10 million. Loans of $600,000 to $3 million will be made *pari passu* by the two organizations to small and medium-size companies seeking to modernize or expand. This operation is a good example of how useful agency lines are in helping the IIC meet its developmental goals; they enable the IIC to efficiently provide medium- and long-term funding to small and medium-size companies that meet its eligibility requirements.

IIC agency line	$10 million
Number of end beneficiaries	7–30
Job creation	150–450
Export earnings	$5 million– $15 million per year
GDP contribution	$15 million– $45 million per year

Delta Leasing Habitacional, S.A. is a real estate leasing company that purchases medium- and low-cost housing and leases the homes to individuals through a lease-to-own arrangement. A $7 million loan and a $1 million equity investment from the Corporation will enable Delta Leasing to expand its operations and finance the accumulation of lease contracts prior to securitization. Delta Leasing will also develop and sell lease-backed securities, a new instrument in Chile.

The lease-to-own arrangements benefit lower middle to low-income families who do not have enough savings for a down payment on a home or lack the financial strength to obtain a bank loan. The financing from the Corporation will facilitate the creation of about 15,000 long-term leasing contracts via the development of lease-backed securities, as well as strengthen and deepen Chilean capital markets. It is estimated that the project will generate $13 million annually for Chile's GDP.

The IIC will make an equity investment in **Negocios Regionales Fondo de Inversión Privado**, a private investment fund that will invest in small and medium-size Chilean firms. The fund has a term of ten years, and its expected capitalization is $23.5 million.

This project aims to support the development of small and medium-size companies in Chile by setting up a venture capital fund in which the IDB's Multilateral Investment Fund will also invest. Negocios Regionales will target regions in the country outside metropolitan Santiago. In these regions, production development has not been as dynamic as in the capital, and companies find it even harder to gain access to long-term financing, especially if they are small or medium-size.

The companies in which the fund will invest must comply with local environmental and labor requirements and international standards, in accordance with the IIC's environmental and labor review policies.

IIC equity investment	Up to $4 million
Number of end beneficiaries	10–20
Job creation	120–180
Foreign exchange generation	$5 million– $10 million per year
GDP contribution	$15 million– $35 million per year

COSTA RICA

The proceeds from an IIC loan will be on-lent by **Banco Improsa S.A.** to small and medium-size companies in Costa Rica. The loan will help support Banco Improsa's target market, which chiefly comprises export-oriented companies with less than $4.5 million in annual sales. It will also help this small bank gain access to additional long-term funding.

IIC loan	$6 million
Number of end beneficiaries	30–60
Job creation	300–600
Export earnings	$3 million– $4 million per year
GDP contribution	$13 million– $17 million per year

Consorcio Celsa-Dimmsa-Telepsa Limitada (CONDICEL), recipient of a $4.2 million loan from the IIC, will install and maintain 15,000 public telephone booths in Costa Rica and lease them to the Instituto Costarricense de Electricidad (ICE), the national telephone and electricity company. The project will more than double the number of public telephones in Costa Rica in rural areas as well as in major cities. In addition to creating ninety direct jobs, the project will provide an opportunity for the local private sector to obtain experience and skills in providing telecommunication services and transfer advanced Colombian telephonic technology and equipment to the Costa Rican telecommunications sector.

DOMINICAN REPUBLIC

The IIC approved a $30 million loan to **Banco Popular Dominicano C.A.**, consisting of a $10 million A loan from the IIC and a $20 million B loan from international commercial banks. The proceeds will be used to provide medium- and long-term financing to medium-size Dominican companies, mainly exporters. These subloans will enable industrial, agribusiness, tourism, energy, transportation, communications, infrastructure, and service companies to implement expansion projects and purchase machinery and equipment, as well as provide them with working capital. In line with the Dominican Republic's efforts in the area of technological revamping, loans for infrastructure projects will target development in productive sectors.

IIC loan	$10 million
Number of end beneficiaries	10–20
Job creation	100–200
Export earnings	$5 million– $10 million per year
GDP contribution	$20 million– $30 million per year

In another transaction designed to bolster development in one of its member countries, the Inter-American Investment Corporation will provide funding for small and medium-size enterprises in the Dominican Republic. The funding will be in the form of direct medium- and long-term loans for modernizing and/or expanding these enterprises through an agency line to **Banco Popular Dominicano, C.A.**, one of the leading financial institutions in that country. The agency line will be for up to $30 million, up to $15 million of which shall be provided by the IIC and up to $15 million by Banco Popular Dominicano as the agent. The IIC loans to each of the borrower firms shall not exceed $1.5 million nor be less than $300,000. Banco Popular shall participate in financing the eligible projects under the same terms and conditions as the IIC. However, it may participate with larger amounts than the IIC.

IIC agency line	$15 million
Number of end beneficiaries	30–50
Job creation	300–500
Export earnings	$3 million per year
GDP contribution	$10 million per year

ECUADOR

El Rosario S.A. (ERSA), an Ecuadorian company, and **Camarones Humboldt Panamá S.A.**, a holding company, are two leaders in the Ecuadorian shrimp industry. Together, they will receive an $8 million IIC loan, divided into a seven-year, $6 million loan and a nine-year, profit-sharing $2 million loan.

The borrowers will use the loan proceeds to expand and modernize ERSA's feedmill and shrimp breeding, processing, and packing facilities in northern Ecuador. The project calls for the construction of new nursery and grow-out ponds, water chlorination and recirculation facilities, and the development of new disease-resistant shrimp stocks. These are all significant enhancements at a time when Ecuador strives to recover from a viral disease that devastated the shrimp populations of the country's Pacific coast in 1999.

The project's importance is highlighted by the fact that Ecuador is one of the world's leading exporters of fresh shrimp and obtains large amounts of foreign currency from shrimp industry activities. Thus, the IIC will be fostering development in Ecuador and helping to sustain an important source of employment in an industry that represents 250,000 direct jobs and one million indirect jobs.

HONDURAS

Manufacturas del Trópico, S.A. is a Honduran corporation located near San Pedro Sula, Honduras' industrial hub. Del Trópico manufactures high quality outdoor furniture that is currently distributed in the United States by a U.S. firm that produces and distributes furniture for the high-end market segment.

The IIC approved a $3 million loan to Manufacturas del Trópico (a $1.5 million senior loan and a $1.5 million subordinated loan) for expanding and upgrading del Trópico's facilities. The project entails the construction of an additional 8,050 square meters of industrial bays, the purchase and installation of production equipment, the upgrading of the plant's environmental and labor conditions, and other improvements in the areas of management systems, information systems, and working capital.

The IIC loan will foster the transfer of technology to Manufacturas del Trópico thanks to its links to its U.S. distributor. The loan will also enable the company to expand its own market and sell furniture to Europe and Latin America. The project will also help generate foreign currency and create jobs, since del Trópico, which currently employs 426 Honduran workers, will add another 600 jobs in its expanded facilities. The implementation of the project will have a significant developmental impact in Honduras, which is striving to rebuild its economy in the wake of Hurricane Mitch.

The IIC's strategy for Honduras after Hurricane Mitch calls for the direct financing of projects in sectors that create large numbers of employment opportunities and generate foreign exchange. With a $7.5 million loan to **Zona Industrial de Exportación Buena Vista, S.A.** (ZIP Buena Vista), the IIC will help finance the $16.2 million expansion of an industrial park near San Pedro Sula, the industrial center of Honduras. A total of 42,896 square meters of industrial space will be added as part of the expansion, as will a parking lot for containers, an additional well, a water storage tank, and two solid waste incinerators. ZIP Buena Vista will also expand the existing sewage water treatment plant and purchase waste collection equipment. The expanded facilities will provide employment to an additional 5,400 workers.

The ZIP Buena Vista project will generate directly about $20 million in hard currency earnings for Honduras during the first ten years of operation. Indirectly, the project will generate approximately $22.1 million per year in value added from the companies installed in the new facilities.

MEXICO

Almacenadora Mercader, S.A (Almer) is a grain warehousing company that was privatized in 1998. A $10 million loan from the IIC will increase Almer's permanent working capital so that it may purchase a larger volume of the white corn that is used to make tortillas, a staple foodstuff. As a warehousing company, Almer plays a key role in the tortilla production chain because the corn buying, storage, grading, and selling services it provides help ensure the timely supply of corn from the many, mostly small, farmers to tortilla producers. Almer also plans to purchase more grain from Mexican producers via repurchase agreements ("repos") to be financed with the IIC loan.

The Almer project supports the development of the Mexican capital market by creating the basis for the eventual securitization of the grain purchase instruments (warehouse receipts). Agricultural producers will gain access to credit and to modern distribution systems and risk management instruments. It is anticipated that around 2,500 farmers will benefit from the program per cycle, with a total of 10,000 farmers per year. In addition, the project is expected to create 132 direct jobs.

Of Mexico's four top hospitals, **Hospital ABC** is the only one that is not for profit. It also provides extensive charity services and a wide range of in-house training and research programs. Hospital ABC will construct a new hospital clinic in the Santa Fe area of Mexico City. The first phase of this long-term project, funded in part by a $10 million loan from the Corporation, calls for a specialized outpatient center, including day surgery; a 100-unit medical office building; all related diagnostic services such as a laboratory and an imaging center; and a preventive medicine center. The facility will also include a 24-hour emergency department, a welfare clinic intended to deliver services to the poor as per Hospital ABC's mandate, and sixty hospital beds.

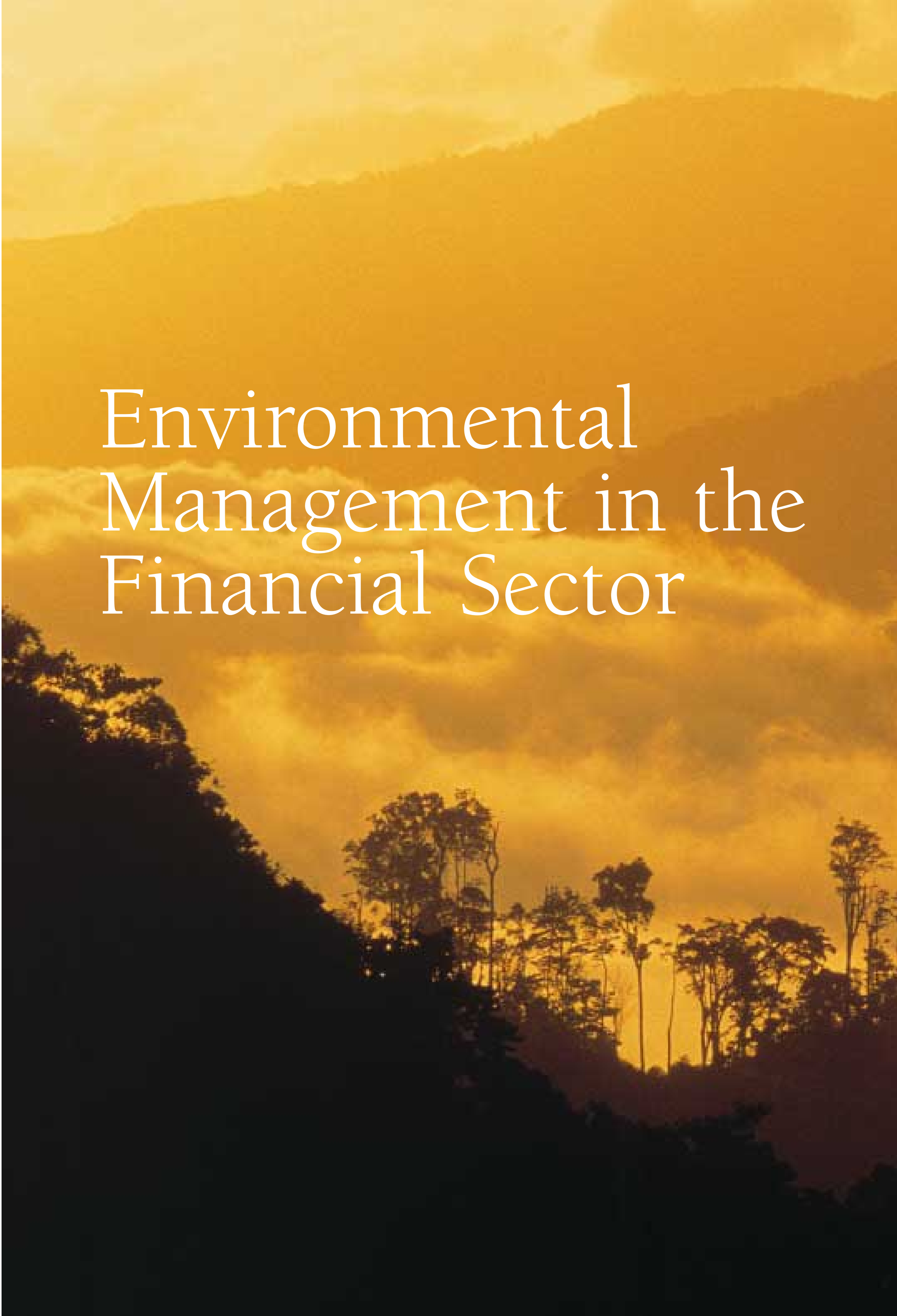
Although Mexico is attracting foreign investment, most of the incoming capital has been concentrated on the funding needs of large transactions. **Multinational Industrial Fund**, an $80 million private equity fund, will invest in equity and quasi-equity securities of small and medium-size Mexican companies entering into joint ventures with foreign companies to generate exports. It will thus support the creation and expansion of small and medium-scale enterprises in Mexico that lack access to equity capital and promote export sales and the transfer of technology.

IIC equity investment	$8 million
Number of end beneficiaries	15
Job creation	450
GDP contribution	$300 million over 10 years

URUGUAY

Transportation, tourism and urban infrastructure are important economic sectors that increase the efficiency of services, create significant streams of value-added, and generate—either directly or indirectly—new jobs in developing countries. The city of Salto, in a part of Uruguay that is rapidly becoming an important tourist destination, will have a multipurpose bus terminal facility to be built by **Udeman S.A.** with the help of a $5 million loan from the IIC. The terminal will significantly improve domestic and international bus passenger and small cargo transportation services. The terminal will also offer amenities associated with modern transportation facilities, including a shopping center.

With this loan, the IIC will support a private sector initiative to provide a service heretofore provided by the public sector. The $15.7 million project will create 15 direct jobs and 350 indirect jobs.



Environmental Management in the Financial Sector

"Responsible, entrepreneurial businesses are the driving force for sustainable economic development and provide the managerial, technical and financial resources to contribute to the resolution of environmental challenges. Many challenges remain and industry must continue to improve performance and keep stakeholders informed of its policies and practices.… A particular challenge in pursuit of responsible entrepreneurship will be bringing SMEs into the mainstream of good environmental management, and using investment…to carry good practices, technologies, and expertise to developing countries and countries with economies in transition."

"Responsible entrepreneurship," Paper No. 1, Sixth Session of the United Nations Commission on Sustainable Development, provided by International Chamber of Commerce and the World Business Council for Sustainable Development.

As a multilateral institution mandated to further sustainable development in Latin America and the Caribbean by financing small and medium-size companies, the Inter-American Investment Corporation is in a unique position. It can help the companies that it funds become environmentally responsible businesses and thus position them to reap the competitive advantages that the sustainable use of natural resources provides on the global marketplace. These companies can be models that prove that business growth in developing economies need not destroy the natural resources on which sustainable development is built.

Promoting environmental responsibility on the part of projects that the IIC finances directly is relatively straightforward. First, the IIC will not approve a project if the project company does not meet the host country's and the IIC's environmental and labor standards or commit to allocating resources for coming into compliance. Second, the IIC discloses summary environmental information for public comment before the Board of Directors (representing the IIC's member countries) meets to vote on a project. Third, subsequent loan disbursements are tied to continued compliance. Adherence to this environmental and labor commitment is verified by project supervision visits.

But the IIC makes indirect investments as well, working through local financial intermediaries and targeted private equity funds. Working through such financial intermediaries presents a challenge: ensuring environmental compliance by thousands of recipients of subloans and equity investments made with IIC funds.

One of the environmentally innovative projects financed directly by the IIC is Fábrica de Papel Santa Therezinha S.A. (Santher), a Brazilian producer of tissue and packaging paper. Santher, which received an $8 million direct loan from the IIC in 1993, uses recycled paper in its manufacturing process. It also has water treatment facilities that return water to the local river in a cleaner condition than when it was drawn. These practices are followed by many paper mills around the world. Not so widespread, though, is the way Santher uses the sludge from its papermaking operations. Paper mill sludge is an organic waste product that is usually disposed of by incineration or landfilling, both of which can be sources of pollutants. But Santher uses its sludge as a raw material for making bricks. Bricks made with Santher's papermill sludge weigh less, break less easily, and are better insulators than plain clay bricks.

Addressing the Challenge: Building Regional Capacity

Since it began operations in 1989, the Inter-American Investment Corporation has built up a financial intermediation program that has made financing available to a large number of small and medium-scale enterprises while supporting the development of sound domestic financial institutions. The program has proven to be a cost-efficient way for the IIC to reach more small and midsize companies by leveraging the available financial resources while ensuring that solid project financing and environmental protection requirements are met.

When operating through such intermediaries, the IIC not only seeks to foster the development of small and medium-size private enterprise in Latin America and the Caribbean by reducing the high cost of banking and other financial services that has made project finance inaccessible to small borrowers and seekers of equity capital. It also seeks to improve the intermediary's managerial and operational structures, including credit analysis, administration, and supervision, as well as the adoption and promotion of responsible environmental practices in their lending.

This institution-building process has the added advantage of turning local financial institutions into agents of the IIC, overseeing compliance with its investment and environmental guidelines. By establishing maximum loan amounts, strict financial and environmental standards, and limits on subborrower company size, assets, and sales, the IIC promotes the development of financial systems that support companies that have the potential to contribute to the region's sustainable economic growth, utilizing human and material resources in ways that benefit the local economy and expanding the economic base of its member countries.

Environmental Management Training for Financial Intermediaries

The IIC requires that each financial intermediary or investment fund that on-lends or invests IIC funds undertake or certify an environmental review of each

Sustainable Development and Environmental Protection

The Latin American Agribusiness Development Corporation S.A. (LAAD) is a private investment and development company founded thirty years ago to finance agribusiness projects in Latin America and the Caribbean. LAAD's shareholders are twelve leading agribusiness and financial corporations. LAAD makes short- and medium-term credit available to qualified projects in the private sector, lending directly to its clients by way of its eight field offices spread throughout the region. Over the years, LAAD has obtained funding from USAID, 936 Funds, commercial banks, and most recently from an agency line agreement with the IIC. Traditionally, LAAD has focused on projects that have significant employment impact and that generate foreign exchange. Most of LAAD's borrowers are small or medium-size family owned and operated businesses.

LAAD has always been conscious of the environmental impact factor when financing agribusiness projects. It has avoided projects that might be irresponsible and has financed improved waste handling and agrochemical storage facilities as subcomponents to larger projects. Nonetheless, LAAD recognizes that more environmental awareness is needed throughout the agribusiness sector of Latin America.

This reality poses a three-way challenge:

- International development institutions such as the IIC must enforce their internal mandates for sustainable development and environmental protection, while still finding willing on-lenders for their development funds.
- Banks and financial companies such as LAAD must comply with standards set by IIC and other providers of development funds, yet must find an efficient way of doing so to remain competitive.
- The borrowers of international development funds must implement acceptable environmental practices in order to qualify for those funds, yet must remain cost effective or go out of business.

The time and cost of assessing the environmental impact of a single project can be prohibitive for a private sector lending institution. Furthermore, if one lender requires such a study and another lender does not, and if all other conditions are equal, the typical borrower will choose the less complicated route.

LAAD's recommendation is to convert these new requirements into an opportunity, not an additional burden to lenders and borrowers. How? One idea would be to develop a "Green Earth" certification program at regional agricultural universities such as Costa Rica's Earth School or the Zamorano School of Honduras. These universities could form teams of professors and students who would do the environmental assessment studies for a fee, issuing certificates of compliance once the projects achieve certain standards. A vital second step would be to promote the Green Earth Certification within the marketplaces where the borrower companies distribute their products. Eventually, Green Earth products should receive premiums or at least preference over noncertified products, in addition to opening the doors to international development funds participating in the program.

The need for greater environmental awareness and compliance with higher standards has never been clearer. On the other hand, the greatest challenges in the developing world are to meet the most basic needs of its citizens and to improve living conditions over the short term. Compliance with environmental standards should always take into account those needs. Multilateral development institutions must seek creative ways of implementing their new environmental mandates.

Hunter Martin
Regional Vice President,
Latin American Agribusiness
Development Corporation S.A.

subborrower's or investee's environmental performance. These reviews cover compliance with the relevant country's environmental, workplace safety, and labor laws and regulations and IIC's environmental and labor review guidelines. Since June 1999, the IIC has required that its client financial intermediaries send representatives to its financial intermediary environmental training seminar. These representatives should be senior officers, loan officers, or analysts who influence or participate in strategic planning and have direct line responsibility for the IIC funding.

The purpose of the seminar is to increase the capacity of IIC's clients in the implementation of IIC's environmental and labor standards when utilizing IIC resources. It provides an overview of current environmental, workplace health and safety, and labor issues as well as IIC policy requirements. It also provides instruction on how to apply the IIC's environmental risk classification system, how to comply with IIC annual environmental reporting requirements, and how to develop corrective action plans for subprojects if necessary.

Seminar participants are exposed to

- a basic understanding of the likely environmental and related issues that they may encounter when utilizing the IIC's funds;
- an understanding of IIC's policies in these areas;
- the knowledge necessary to screen and review projects;
- the basic components and tools for implementing an environmental management system;
- the IIC's environmental screening and reporting requirements; and
- concepts and tools that will enable them to recognize and evaluate environmental risk so as to position their clients to achieve a competitive advantage.

Follow-up

Financial intermediaries that have attended the environmental training course receive guidance on how to implement an environmental management system for the utilization of IIC funds. They will ultimately be required to submit annual environmental supervision reports on the companies that receive subloans out of funding provided by the IIC.

Managing Change: Positioning Latin America and the Caribbean's small and medium-size companies for competitive advantage

The union of positive environmental and commercial results has a demonstration effect that can help foster the transition to more environmentally responsible business practices. To this end, the IIC seeks to be proactive in carrying out its member countries' instructions to widen compliance with environmental protection standards among the region's small and medium-size enterprises. When possible, it will provide its borrowers and investees with information on low-cost and no-cost ways to be ecoefficient, i.e., to provide competitive goods and services through cleaner production, better process control, equipment modification, technology change, on-site recovery and reuse, production of useful by-products, and product modification. And the IIC will seek to make available funding for the more innovative ways to preserve productive natural resources that will enable the countries of the region to continue to develop.

A unique opportunity for sustainable development

Ecoefficiency is not only a global imperative. It is a real opportunity for Latin America and the Caribbean to derive significant added value from their abundant natural resources without the serious and seemingly irreversible environmental cost incurred over the past one hundred years by other countries as they industrialized.

Small and medium-size companies provide a large part of the employment, goods and services, and entrepreneurial and investment opportunities in Latin America and the Caribbean. They can also be the force behind sustainable economic development, to their own immediate and long-term benefit and to the benefit of the region as a whole. The IIC will seek to fulfill its developmental mandate by striving to help them achieve that goal.

Business Lessons Learned in Ecotourism

As the world's largest industry, tourism generates trillions of dollars in revenues, attracts $750 billion in capital investment, and provides approximately 230 million jobs globally. Nature tourism represents about 40 percent of this market. An increasing number of countries are seeking to invest in their natural, biologically diverse tourist attractions as a major component in their development strategies.

Conservation International (CI), a Washington DC-based organization committed to biodiversity conservation, is promoting its own mission as well as economic growth through ecotourism, which is nature tourism developed for the benefit of local communities. If people living in and around important conservation areas can derive value from maintaining them as ecotourism destinations, then they will reduce environmentally destructive activities such as hunting and logging.

CI's approach to ecotourism works at multiple scales. Small-scale entrepreneurs are provided training in business and technical skills to establish tourism businesses. A specially designed ecotourism development program brings together community businesses, tour operators and government officials to foster investment in ecotourism at the regional level. Nationally and globally, CI seeks to influence governments and the industry to make tourism development plans that conserve biodiversity. The success of this approach depends on being able to demonstrate that ecotourism businesses can be sustainable over the long term through achieving profitable operations, attracting finance and developing management skills.

The major challenges that new community-level ecotourism businesses face are lack of capital among local entrepreneurs, lack of collateral to secure loans, high risk of new ventures, and inadequate management skills to produce quality business plans that take advantage of the market opportunity.

CI's experience suggests that the way forward has three key elements.

- Provide a comprehensive technical assistance program, predominantly grant-funded, that creates managers for the business and markets for the products.
- Secure appropriate long-term finance to meet the growth objectives.
- Formalize written agreements with community partners that clarify roles and responsibilities and safeguard the conservation objectives.

Businesses that keep start-up and operational costs low will be much less risky: rather than start by building large-scale infrastructure, improving existing accommodations or focusing on skills development such as guide training may provide safer investments. Ecotourism businesses need to prepare comprehensive feasibility studies with strong marketing and financial sections and a management development plan. New ecotourism enterprises should analyze domestic market opportunities first in order to avoid the high costs of international marketing and learn the business through selling to a domestic market that they are familiar with.

Appropriate finance means access to long-term and short-term capital at rates of interest that fledgling businesses can manage. There is a need for special funds with lower barriers to securing finance for ventures that provide social and environmental benefits. CI itself manages the Conservation Enterprise Fund, a loan program that is targeted at businesses who promote biodiversity conservation.

CI and its partners are trying new approaches to promoting ecotourism, such as applying the small business incubator model that has been so successful in the high technology and communications industries. Such a project is underway in Bahia, Brazil, and, if successful, would be replicated elsewhere. The recently launched CI Ecotourism Excellence Award provides a way to showcase select individuals and businesses that are role models for sustainable tourism.

The support of these and other approaches will enable ecotourism to realize its many potential benefits—sustainable businesses, biodiversity conservation, economic development, education and awareness, and meaningful employment for local people.

Stephen Edwards
Manager, Ecotourism Development Program
Conservation International

Edward Millard
Senior Director, Conservation Enterprise
Conservation International

Operations Approved in 2000

(In US$ Millions)

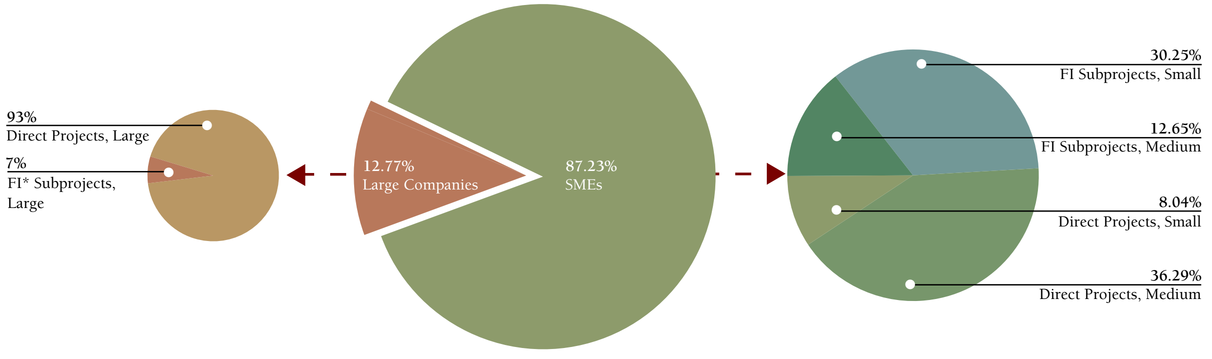
Country	Investment Name	Sector	Loan	Equity	Total	Original Project Cost	Annual Value Added	Annual Foreign Exchange	Jobs Created
Brazil	Brazilian Mortgages	Capital Markets	10.50	—	10.5	63.0	28.00	—	—
Brazil	Serviços Financeiros Imobiliários	Specialized Financial Services	1.00	—	1.00	6.0	—	—	—
Chile	Banco del Desarrollo Agency Line	Agency-Multisector	10.00	—	10.00	20.0	42.50	12.50	425
Chile	Delta Leasing	Leasing Companies	7.00	1.0	8.00	48.0	13.00	—	—
Chile	Negocios Regionales Fondo de Inversión	Private Equity Fund	—	4.0	4.00	23.5	25.00	7.50	150
Costa Rica	Consorcio Celsa-Dimmsa-Telepsa (Condicel) Ltda.	Telecommunications	4.20	—	4.20	15.6	5.83	—	90
Costa Rica	Banco Improsa	Multi-Purpose Banking	6.00	—	6.00	36.0	15.00	3.57	450
Dominican Republic	Banco Popular Dominicano	Multi-Purpose Banking	10.00	—	10.00	180.0	10.00	3.21	450
Dominican Republic	Banco Popular Dominicano Agency Line	Agency Line	15.00	—	15.00	30.0	9.64	2.50	400
Ecuador	El Rosario S.A.	Agribusiness/ Agriculture	8.00	—	8.00	37.0	11.29	12.43	240
Honduras	Zip Buena Vista	Industrial Parks & Free Trade Zone	7.50	—	7.50	16.2	2.00	1.70	5,400
Honduras	Manufacturas del Trópico	Base Metal & Metal Products; Machinery & Equipment	3.00	—	3.00	7.0	3.10	3.50	600
Mexico	Multinational Industrial Fund	Private Equity Fund	—	8.0	8.00	80.0	30.00	—	450
Mexico	Hospital ABC	Health Services	10.00	—	10.00	81.9	4.00	—	—
Mexico	Almacenadora Mercader, S.A.	Warehousing	10.00	—	10.00	10.0	3.50	—	132
Regional	Advent II	Private Equity Fund	—	10.0	10.00	500.0	17.00	8.50	900
Regional	CEA Latin American Communications Equity Associates L.P.	Private Equity Fund	—	7.5	7.50	100.0	100.00	25.00	360
Regional	Central America Growth Fund, L.P.	Private Equity Fund	—	5.0	5.00	50.0	100.00	25.00	200
Uruguay	Udeman Bus Terminal	Transportation, Storage & Communications	5.00	—	5.00	15.7	3.17	—	15
		Total	**107.20**	**35.50**	**142.70**	**1,319.90**	**423.03**	**92.91**	**10,262**

Approvals, Commitments, and Disbursements

(As of December 31, 2000—Millions of US$)

		GROSS APPROVALS			NET COMMITMENTS			DISBURSEMENTS		
Country	**Number of projects**	**Loan**	**Equity**	**Loan & Equity**	**Loan**	**Equity**	**Loan & Equity**	**Loan**	**Equity**	**Loan & Equity**
Argentina	26	137,240	10,972	148,212	106,992	8,798	115,790	104,531	8,798	113,329
Bahamas	2	6,000	0	6,000	1,000	0	1,000	1,000	0	1,000
Barbados	1	0	4,000	4,000	0	0	0	0	0	0
Bolivia	11	49,050	1,925	50,975	42,822	1,325	44,147	42,822	1,325	44,147
Brazil	20	102,300	18,500	120,800	75,530	13,030	88,560	61,715	13,030	74,745
Chile	13	49,348	20,326	69,674	33,348	10,118	43,466	28,763	10,118	38,881
Colombia	12	51,165	12,883	64,048	25,965	9,505	35,470	25,965	9,505	35,470
Costa Rica	10	43,700	1,500	45,200	36,000	500	36,500	28,821	500	29,321
Dominican Republic	8	50,550	0	50,550	26,920	0	26,920	16,920	0	16,920
Ecuador	8	31,000	2,500	33,500	7,000	1,802	8,802	7,000	1,802	8,802
El Salvador	3	4,000	4,500	8,500	4,000	2,000	6,000	4,000	2,000	6,000
Guatemala	8	46,050	500	46,550	33,050	0	33,050	16,650	0	16,650
Guyana	2	3,300	0	3,300	800	0	800	800	0	800
Haiti	1	1,000	0	1,000	0	0	0	0	0	0
Honduras	10	50,900	1,000	51,900	30,584	0	30,584	20,834	0	20,834
Jamaica	6	19,300	1,518	20,818	5,559	0	5,559	5,559	0	5,559
Mexico	24	86,988	45,250	132,238	41,874	27,299	69,174	26,796	17,648	44,444
Nicaragua	7	26,400	1,400	27,800	22,400	900	23,300	17,470	900	18,370
Panama	4	17,028	0	17,028	17,028	0	17,028	16,100	0	16,100
Paraguay	5	22,000	0	22,000	19,238	0	19,238	18,339	0	18,339
Peru	16	85,450	10,834	96,284	43,290	4,484	47,774	43,290	4,484	47,774
Regional	24	58,500	124,000	182,500	15,000	77,500	92,500	5,319	58,049	63,368
Trinidad & Tobago	4	17,500	2,800	20,300	14,217	598	14,815	9,607	598	10,205
Uruguay	10	45,087	6,200	51,287	30,740	6,047	36,787	27,940	6,047	33,987
Venezuela	9	41,750	4,740	46,490	22,500	0.00	22,500	19,500	0	19,500
Total	**244**	**1,045,605**	**275,348**	**1,320,953**	**655,857**	**163,907**	**819,764**	**549,741**	**134,805**	**684,546**

Breakdown of Disbursements by Enterprise Size



*FI = Financial Intermediary

Report of Independent Accountants

Board of Governors
Inter-American Investment Corporation

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of the Inter-American Investment Corporation at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Washington, D.C.
February 2, 2001

Balance Sheets

(Expressed in thousands of United States dollars)

	YEARS ENDED DECEMBER 31, 2000	1999
ASSETS		
CASH	$ 1,782	$ 3,622
MARKETABLE SECURITIES	62,312	32,598
LOAN AND EQUITY INVESTMENTS		
Loan Investments	269,644	267,973
Less Allowance for Losses	(24,409)	(24,567)
	245,235	243,406
Equity Investments	93,709	84,972
Less Allowance for Losses	(15,961)	(10,186)
	77,748	74,786
Total Investments	322,983	318,192
RECEIVABLES AND OTHER ASSETS	7,105	6,737
TOTAL ASSETS	$394,182	$361,149
LIABILITIES AND EQUITY		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	$ 3,381	$ 2,255
INTEREST AND COMMITMENT FEES PAYABLE	1,517	820
BORROWINGS	160,000	150,000
Total Liabilities	164,898	153,075
CAPITAL		
Authorized: 70,370 shares (Par value $10,000)		
Subscribed Shares	662,040	203,700
Less Subscriptions Receivable	(438,165)	(445)
	223,875	203,255
RETAINED EARNINGS	5,409	4,819
TOTAL LIABILITIES AND EQUITY	$394,182	$361,149

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

Statements of Income and Retained Earnings

(Expressed in thousands of United States dollars)

	YEARS ENDED DECEMBER 31,	
	2000	1999
INCOME		
Marketable Securities	$ 3,306	$ 2,175
Loan Investments		
Interest	24,579	17,907
Commitment Fees	553	472
Front-end Fees	529	1,467
Other Loan Investment Income	473	681
	26,134	20,527
Equity Investments		
Gain on Sale of Equity Investments	505	235
Dividends	918	1,098
Other Equity Investment Income	121	161
	1,544	1,494
Advisory Service, Cofinancing, and Other Income	3,222	3,516
	34,206	27,712
EXPENSES		
Administrative	13,239	12,918
Provision for Loan and Equity Investment Losses	9,848	21,793
Borrowing	10,529	5,945
	33,616	40,656
NET INCOME (LOSS)	590	(12,944)
RETAINED EARNINGS AT BEGINNING OF YEAR	4,819	17,763
RETAINED EARNINGS AT END OF YEAR	$ 5,409	$ 4,819

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

Statements of Cash Flows

(Expressed in thousands of United States dollars)

	YEARS ENDED DECEMBER 31, 2000	1999
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan disbursements	$ (51,034)	$ (114,792)
Equity disbursements	(13,516)	(17,139)
Loan repayments	44,257	50,412
Sales of equity investments	3,459	1,531
Return of capital from equity investments	326	1,737
Proceeds from recovered assets	1,869	241
Net cash used in investing activities	(14,639)	(78,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of borrowings	80,000	80,000
Repayment of borrowings	(70,000)	(20,000)
Capital subscriptions	20,620	80
Net cash provided by financing activities	30,620	60,080
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	590	(12,944)
Marketable Securities:		
Purchases	(1,790,957)	(2,364,420)
Sales, maturities, and repayments	1,761,300	2,377,344
	(29,657)	12,924
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan and equity investment losses	9,848	21,793
Increase (Decrease) in receivables and other assets	(368)	212
Increase (Decrease) in accounts payable and other liabilities	1,126	(99)
Increase (Decrease) in interest and commitment fees payable	697	(430)
Unrealized (gain) loss on marketable securities	(57)	26
	11,246	21,502
Net cash (used in) provided by operating activities	(17,821)	21,482
NET (DECREASE) INCREASE IN CASH	(1,840)	3,552
CASH AT BEGINNING OF YEAR	3,622	70
CASH AT END OF YEAR	$ 1,782	$ 3,622
SUPPLEMENTAL DISCLOSURE		
Interest paid during the year	$ 9,768	$ 6,318

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

PURPOSE

The Inter-American Investment Corporation (the Corporation), a multilateral organization, was established in 1986. 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). The Corporation 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, mobilizing additional project funding from other investors and lenders through cofinancing or loan syndications, and providing financial and technical advisory services. The Corporation receives its share capital from its member countries, conducts its operations only in United States dollars, and limits operational activity to its twenty-six regional member countries.

Note A — Summary of Significant Accounting and Related Policies

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

USE OF ESTIMATES

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from these estimates. A significant degree of judgment has been used in the determination of the adequacy of the reserve against losses. 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.

LOAN AND EQUITY INVESTMENTS

Loan and equity investments are committed when the loan or equity agreement is signed and are recorded as assets when disbursed. Loan investments are carried at the principal amounts outstanding adjusted for allowance for losses. It is the Corporation's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments without a readily determinable market value are initially carried at cost. This carrying amount, as described below, is periodically reviewed and adjusted for impairments. On occasion the Corporation enters into put option agreements in connection with equity investments.

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. Impairment, recognized as part of the allowance for losses, is measured as the excess of the recorded investment in the impaired loan over the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

ALLOWANCE FOR LOSSES ON LOAN AND EQUITY INVESTMENTS

The Corporation follows the policy of periodically reviewing and risk ranking all loan and equity investments and establishing an allowance based on that review. Management's judgment is based on the risk ratings and performance of individual investments, the size and diversity of the Corporation's portfolio, economic conditions, and other factors considered significant by management. The calculation of the allowance for losses includes the use of estimates of collateral values and other potential sources of cash flow. The allowance for losses is established through periodic charges to income in the form of a provision for losses on investments. Investments written off, as well as any subsequent recoveries, are recorded through the allowance account. The allowance for losses is maintained at a level that, in management's judgment, is adequate to absorb estimated losses in the loan and equity portfolio and adequately reflects the risk of loss in the Corporation's portfolio.

REVENUE RECOGNITION ON LOAN AND EQUITY INVESTMENTS

Interest and all fees except front-end fees are recognized as income in the periods in which they are earned. Front-end fees and incremental direct costs associated with the origination of loan and equity investments are not amortized since the net is considered immaterial. The Corporation does not recognize income on loans where collectibility is in doubt or payments of interest or principal are past due more than 90 days. Under this past-due based nonaccrual policy, loans may be placed on nonaccrual status even when they may not meet the definition of impaired. Any interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when the actual payment is 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.

MARKETABLE SECURITIES

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

FIXED ASSETS

The Corporation depreciates fixed assets on a straight-line basis over the estimated useful lives of the assets, which range from three to seven years. Costs associated with the development of computer software for internal use are capitalized and amortized over the useful life of the software.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Marketable Securities: Fair values for marketable securities are based on quoted market prices. See Note B.

Loan Investments: The Corporation provides custom-tailored financing to small and medium-size enterprises operating in its developing member countries. There is no comparable secondary market for these types of loans. For the majority of loans and related commitments, management is of the opinion that due to the Corporation's unique position in its lending operations and the absence of an established secondary market, it is not practicable to estimate a fair value for the Corporation's lending portfolio at this time. See Note C.

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

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

ACCOUNTING AND REPORTING DEVELOPMENTS

In June 1998, FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* The Standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires a company to recognize all derivative instruments as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. The statement requires that changes in the derivative's fair value be recorded each period in earnings or as other comprehensive income depending on whether a derivative is designated as part of a hedge transaction. SFAS No. 133, as amended, became effective for the Corporation on January 1, 2001, and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantially modified after December 31, 1997. Adoption of the statement is not expected to have a material impact on the Corporation's financial statements. Management will continue to evaluate the potential impact of these standards on its internal operations and financial reporting for future transactions.

Note B — Marketable Securities

Components of net income for marketable securities for the years ended December 31 consist of:

	December 31, (in thousands)	
	2000	1999
Interest Income	$3,242	$2,517
Unrealized Gain (Loss)	7	(316)
Realized Gain (Loss)	57	(26)
TOTAL	$3,306	$2,175

Note C — Loan and Equity Investments

The Corporation monitors the outstanding loan and equity portfolios for geographic concentration of credit risk. At December 31, 2000, countries with the largest aggregate credit exposure to the Corporation included Argentina, Bolivia, and Brazil. See below the summary of projects by country and sector as of December 31, 2000.

The distribution of the disbursed loan and equity investment portfolio by country is as follows:

	December 31, (in thousands)					
	2000			1999		
	Loan	Equity	Total	Loan	Equity	Total
Argentina	$ 66,248	$ 4,999	$ 71,247	$ 74,465	$ 6,000	$ 80,465
Regional	4,905	52,609	57,514	—	42,910	42,910
Bolivia	30,391	—	30,391	31,752	—	31,752
Brazil	18,844	9,425	28,269	23,983	9,460	33,443
Peru	21,710	—	21,710	25,611	—	25,611
Costa Rica	18,770	—	18,770	18,198	—	18,198
Chile	11,190	6,000	17,190	7,880	5,000	12,880
Honduras	14,603	—	14,603	8,426	—	8,426
Mexico	2,013	12,120	14,133	4,427	11,294	15,721
Guatemala	13,240	—	13,240	10,927	—	10,927
Paraguay	12,726	—	12,726	6,472	—	6,472
Nicaragua	11,160	400	11,560	4,938	400	5,338
Venezuela	11,361	—	11,361	13,177	—	13,177
Panama	10,145	—	10,145	8,435	—	8,435
Dominican Republic	10,003	—	10,003	12,115	—	12,115
Trinidad & Tobago	5,390	598	5,988	7,022	598	7,620
Uruguay	3,850	1,389	5,239	2,184	1,615	3,799
Colombia	363	4,169	4,532	3,896	5,695	9,591
El Salvador	727	2,000	2,727	1,455	—	1,455
Ecuador	1,445	—	1,445	1,890	2,000	3,890
Bahamas	560	—	560	720	—	720
TOTAL	$269,644	$93,709	$363,353	$267,973	$84,972	$352,945

The distribution of the disbursed loan and equity investment portfolio by sector is as follows:

	DECEMBER 31, (IN THOUSANDS)					
	2000			1999		
	LOAN	EQUITY	TOTAL	LOAN	EQUITY	TOTAL
Financial Services	$132,104	$ 6,052	$138,156	$126,154	$ 6,026	$132,180
Venture Capital Funds	—	75,257	75,257	—	63,332	63,332
Manufacturing	43,653	2,000	45,653	52,935	4,026	56,961
Utilities	21,111	—	21,111	21,418	—	21,418
Tourism	19,746	—	19,746	20,574	—	20,574
Transportation, Storage & Communications	17,059	—	17,059	6,154	—	6,154
Agribusiness/Agriculture	15,144	2,000	17,144	19,469	2,000	21,469
Fisheries	4,718	5,400	10,118	6,756	5,400	12,156
Leasing Companies	4,905	—	4,905	—	—	—
Health Services	4,353	—	4,353	4,478	—	4,478
Environment	4,179	—	4,179	3,052	—	3,052
Mining & Oil	1,054	3,000	4,054	4,026	4,000	8,026
Livestock & Poultry	1,518	—	1,518	2,957	188	3,145
Agency Lines	100	—	100	—	—	—
TOTAL	$269,644	$93,709	$363,353	$267,973	$84,972	$352,945

Loan and equity investments approved by the Board of Executive Directors to be held by the Corporation but not yet signed as commitments and loan and equity investment commitments signed for which disbursement has not yet been made (net of cancellations) are summarized below:

	DECEMBER 31, (IN THOUSANDS)	
	2000	1999
Investments Approved but not Committed		
Loan	$111,100	$111,000
Equity	26,500	19,000
TOTAL	$137,600	$130,000
Investments Committed but not Disbursed		
Loan	$106,116	$ 84,029
Equity	33,691	25,343
TOTAL	$139,807	$109,372

Notes to the Financial Statements

December 31, 2000 and 1999

The Corporation's loans accrue interest at one-, three-, and six-month London Inter-Bank Offered Rate (LIBOR) plus a spread ranging from 2.50% to 6.00%. At December 31, 2000, the one-, three-, and six-month average LIBOR rates were 6.56%, 6.40% and 6.21%, respectively (5.83%, 6.00%, and 6.14%, respectively, at December 31, 1999).

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

	DECEMBER 31, (IN THOUSANDS)			
	2000		1999	
	PRINCIPAL OUTSTANDING	AVERAGE SPREAD OVER LIBOR	PRINCIPAL OUTSTANDING	AVERAGE SPREAD OVER LIBOR
Due in one year or less	$ 69,336	3.51%	$ 48,193	3.76%
Due after one year through five years	150,590	3.38%	154,302	3.44%
Due after five years through ten years	49,718	3.37%	65,478	3.31%
TOTAL	$269,644		$267,973	

Loans placed in nonaccrual status at December 31, 2000, totaled $40,516,000 ($32,226,000-December 31, 1999). Interest income reversed on nonaccrual loans during the year ended December 31, 2000, totaled $3,782,000 ($4,076,000-year ended December 31, 1999). Cash collections on reversed income during the year ended December 31, 2000, totaled $959,000 ($254,000-year ended December 31, 1999).

The Corporation's investment in impaired loans at December 31, 2000, was $8,525,000 ($20,339,000-at December 31, 1999). The average investment in impaired loans for the year ended December 31, 2000, was $14,432,000 ($28,556,000-year ended December 31, 1999). The allowance for losses against impaired loans at December 31, 2000, was $5,600,000 ($10,932,000-at December 31, 1999). The Corporation recognized $58,000 in interest income from loans classified as impaired at December 31, 2000 ($128,000-at December 31, 1999).

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

	DECEMBER 31, (IN THOUSANDS)					
	2000			1999		
	LOANS	EQUITY	TOTAL	LOANS	EQUITY	TOTAL
Balance at beginning of year	$24,567	$10,186	$34,753	$ 28,149	$ 9,645	$ 37,794
Investments written off	(5,106)	(994)	(6,100)	(17,333)	(7,742)	(25,075)
Recoveries	1,869	—	1,869	218	23	241
Provision for losses	3,079	6,769	9,848	13,533	8,260	21,793
Balance at end of year	$24,409	$15,961	$40,370	$ 24,567	$10,186	$ 34,753

In 2000 the Corporation made an investment in a minimum lease payments receivable, which is included in loan investments. As of December 31, 2000, the net present value of this investment totaled $4,936,000, including gross payments receivable of $5,656,000 with unearned interest of $720,000. During the year ended December 31, 2000, the Corporation recognized $110,000 in interest income associated with these leases. Lease payments to be received over the next five years are as follows:

	DECEMBER 31, (IN THOUSANDS)				
	2001	2002	2003	2004	2005
Principal repayments	$1,736	$1,620	$1,019	$431	$95
Interest income earned	375	225	91	25	3
Minimum lease payments receivable	$2,111	$1,845	$1,110	$456	$98

Note D — Receivables and Other Assets

Receivables and other assets are summarized below:

	DECEMBER 31, (IN THOUSANDS)	
	2000	1999
Accrued Income on Marketable Securities	$ 360	$ 239
Accrued Income on Loan Investments	4,647	4,768
Accrued Dividends on Equity Investment	221	102
Receivable on Equity Sales, net	483	1,053
Accrued Interest on Equity Sales	—	110
Recovered Assets	620	—
Other	361	224
Fixed Assets:		
Furniture, Office Equipment, and Leasehold Improvements, at cost	1,208	1,129
Computer Hardware, Software, and Systems Development, at cost	2,287	2,040
Less: Accumulated Depreciation and Amortization	(3,082)	(2,928)
Fixed Assets, net	413	241
TOTAL	$ 7,105	$ 6,737

During 1998, the Corporation sold its participation in certain equity investments and recorded notes receivable totaling $1,800,000 and a related valuation allowance of $72,000. The Corporation recognized a $416,000 gain related to these equity sales, which was included in gain on sale of equity investments during the year ended December 31, 1998. At December 31, 2000, the outstanding balance on this receivable was $568,000 with a related valuation allowance of $85,000 ($1,200,000 and $147,000, respectively-December 31, 1999).

Note E — Borrowings

The Corporation's outstanding borrowings consist of revolving credit line agreements with Caja de Ahorros y Monte de Piedad de Madrid (Caja) and Deutsche Bank Luxembourg, S.A. (Deutsche Bank). Borrowings under these agreements are due one, three, or six months after disbursement and are renewable.

Borrowings under these agreements consist of the following:

	DECEMBER 31, (IN THOUSANDS)	
	2000	1999
Deutsche Bank, $75 million expired October 2000	$ —	$ 60,000
Caja, $50 million expiring July 2001	40,000	20,000
Caja, $50 million expiring March 2003	50,000	—
Caja, $100 million expiring March 2006	70,000	70,000
TOTAL	$160,000	$150,000

Interest accrues at variable rates based on one-, three-, or six-month LIBOR rates set at the effective date of each borrowing. The Corporation's weighted average cost of borrowings for the year ended December 31, 2000, was 6.73% (5.39%-year ended December 31, 1999). The Corporation also pays a commitment fee ranging from .05% to .10% on the unused available line of credit. Total commitment fees paid on all lines for the year ended December 31, 2000, totaled $26,000 ($40,000-year ended December 31, 1999).

In October 2000, the Corporation's credit line facility with Deutsche Bank expired and was not renewed. In December 2000, the Corporation entered into a fourth revolving credit agreement with Caja for $50 million that expires in March 2003. There were no funds drawn under this agreement at December 31, 2000.

In 1997, the Corporation and the Inter-American Development Bank executed a loan agreement allowing the Corporation to borrow up to $300,000,000 until November 2001. No funds were drawn under this loan agreement during 2000 or 1999.

Note F — Capital

The following table lists the capital stock subscribed and subscriptions receivable for each member country at December 31, 2000 (US$ thousands):

	CAPITAL STOCK SUBSCRIBED		SUBSCRIPTIONS RECEIVABLE FROM MEMBERS*
	SHARES	AMOUNT	
Argentina	8,039	$ 80,390	$ 57,120
Austria	345	3,450	2,150
Bahamas	43	430	—
Barbados	104	1,040	650
Belize	104	1,040	890
Bolivia	646	6,460	4,590
Brazil	8,039	80,390	57,120
Chile	2,384	23,840	16,940
Colombia	690	6,900	—
Costa Rica	94	940	—
Denmark	1,071	10,710	6,660
Dominican Republic	435	4,350	2,710
Ecuador	435	4,350	3,090
El Salvador	94	940	—
France	2,162	21,620	13,440
Germany	1,334	13,340	6,200
Guatemala	435	4,350	3,090
Guyana	124	1,240	770
Haiti	94	940	—
Honduras	325	3,250	2,310
Israel	173	1,730	1,230
Italy	2,162	21,620	15,360
Jamaica	126	1,260	—
Japan	2,162	21,620	13,440
Mexico	5,175	51,750	36,770
Netherlands	1,071	10,710	6,660
Nicaragua	94	940	—
Panama	325	3,250	2,310
Paraguay	94	940	—
Peru	1,451	14,510	9,030
Spain	2,162	21,620	15,360
Suriname	30	300	225
Switzerland	1,071	10,710	7,610
Trinidad and Tobago	325	3,250	2,310
United States	17,618	176,180	117,980
Uruguay	857	8,570	5,330
Venezuela	4,311	43,110	26,820
TOTAL 2000	66,204	$662,040	$438,165
TOTAL 1999	20,370	$203,700	$ 445

*Fractional shares rounded up

On December 14, 1999, the Board of Governors approved a resolution increasing the authorized capital of the Corporation from $203,700,000 to $703,700,000. The resolution allocated $500,000,000 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 installments, the last of which is payable on October 31, 2007.

As of December 31, 2000, 66,204 shares were subscribed by member countries at a par value of $10,000 each (20,370 shares-at December 31, 1999). A total of $20,620,000 was paid in on account of subscriptions ($80,000-at December 31, 1999).

Note G — Participations

The Corporation mobilizes funds from commercial banks and other financial institutions (Participants) through loan participations, which are sold by the Corporation, without recourse, to Participants. These loan participations are administered and serviced by the Corporation on behalf of the Participants. During the year ended December 31, 2000, the Corporation called and disbursed $19,843,000 ($24,940,000-year ended December 31, 1999) of Participants' funds. The undisbursed participants' commitments were $27,717,000 at December 31, 2000 ($26,560,000-at December 31, 1999).

Note H — 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 office space that expires in 2002. Payments for office space may vary based on actual usage.

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

	DECEMBER 31, (IN THOUSANDS)	
	2000	1999
Office Space	$1,097	$1,092
Support Services	400	464
TOTAL	$1,497	$1,556

Accounts payable due to the IDB were $49,000 at December 31, 2000 ($274,000-at December 31, 1999).

In 2000 and 1999, no amounts were outstanding to the IDB under an existing loan agreement. See Note E.

The Corporation has an advisory services agreement with the IDB's Multilateral Investment Fund (MIF). Fees of $400,000 were received for the year ended December 31, 2000 ($400,000-year ended December 31, 1999).

Note I — Retirement Plan

The IDB sponsors a defined benefit retirement plan (the Retirement Plan) covering substantially all of the staff of the Corporation and the IDB. Under the Retirement Plan, benefits are based on years of service and average compensation, with the staff contributing a fixed percentage of remuneration, and the Corporation and the IDB contributing the remainder of the actuarially determined cost of future Retirement Plan benefits. The total contribution is based upon the aggregate funding method. All contributions to the Retirement Plan and all other assets and income held for purposes of the Retirement Plan are separated from the other assets and income of the Corporation and the IDB. They can be used only for the benefit of the Retirement Plan participants and their beneficiaries, until all liabilities to them have been paid or provided for. Information regarding the accumulated benefit obligation and related assets attributable to the Corporation is not maintained. The total allocated expense to the Corporation for the purposes of the Retirement Plan was $9,000 for the year ended December 31, 2000 ($468,000-year ended December 31, 1999).

Note J — Non-Pension Postretirement Benefits

The Corporation also provides certain health care and other benefits to retirees. All current staff who participate in the Retirement Plan and who meet certain requirements are eligible for these postretirement benefits when they retire under the Retirement Plan.

The Corporation contributes an actuarially determined expense to the IDB's Postretirement Benefits Plan (the Plan) annually. The Corporation's portion of total assets is prorated to the Plan based upon the Corporation's funding rate and the rate of return on the assets, net of any payments to employees for postretirement benefits. The Corporation funded $695,000 to the Plan for the year ended December 31, 2000 ($765,000-year ended December 31, 1999). Future funding contributions to the Plan are projected to equal the annual actuarial cost.

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

	DECEMBER 31, (IN THOUSANDS)	
	2000	1999
Reconciliation of benefit obligation		
Obligation at January 1	$ 7,386	$ 5,739
Service cost	674	749
Interest cost	462	304
Actuarial (gain) loss	(381)	594
Obligation at December 31	8,141	7,386
Reconciliation of fair value of Plan assets		
Fair value of Plan assets at January 1	7,439	5,537
Actual return on Plan assets	(160)	1,137
Employer contributions	695	765
Fair value of Plan assets at December 31	7,974	7,439
Funded status		
Funded status at December 31	(167)	53
Unrecognized transition obligation	2,445	2,619
Unrecognized gain	(2,029)	(2,491)
Net amount recognized	$ 249	$ 181

Actuarial gains and losses that exceed 10% of the accumulated postretirement benefit obligation are amortized over the average remaining life of active participants of approximately 10.4 years. Unrecognized net transition obligations are amortized over 15 years.

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

	2000	1999
Discount rate	5.75%	6.25%
Expected return on Plan assets	6.50%	7.00%

The accumulated postretirement benefit obligation was determined using health care cost trend rates of 8.0% to 9.5% for those participants assumed to retire in the United States. The rate was assumed to decrease gradually to 5.0% in 2011 and thereafter. For those participants assumed to retire outside of the United States, a 9.5% increase was used.

The net periodic benefit cost consists of the following components:

	December 31, (in thousands)	
	2000	1999
Service cost	$ 674	$ 749
Interest cost	462	304
Amortization of unrecognized transition obligation and gain	24	19
Less: Expected return on Plan assets	(532)	(322)
	$ 628	$ 750

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

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total of service and interest cost components	$ 277	$ (210)
Effect on postretirement benefit obligation	1,450	(1,175)

Governors and Alternate Governors

Country	Governor	Alternate Governor
Argentina	José Luis Machinea	Pedro Pou
Austria	Karl-Heinz Grasser	Thomas Wieser
Bahamas	William C. Allen	Ruth Millar
Barbados	Owen S. Arthur	Grantley Smith
Belize	Ralph Fonseca	Keith Arnold
Bolivia	José Luis Lupo	Bernardo Requena Blanco
Brazil	Martus Antônio Rodriguez Tavares	Armínio Fraga Neto
Chile	Nicolás Eyzaguirre	Maria Eugenia Wagner
Colombia	Juan Manuel Santos	Juan Carlos Echeverri
Costa Rica	Leonel Baruch	Eduardo Lizano Fait
Denmark	Ellen Margrethe Loej	Torben Brylle
Dominican Republic	Francisco M. Guerrero Prats.-R.	Luis Manuel Piantini Munnigh
Ecuador	Luis G. Iturralde M.	Jorge Morán Centeno
El Salvador	Juan José Daboub	José Luis Trigueros
France	Laurent Fabius	Jean-Pierre Jouyet
Germany	(Ms) Uschi Eid	Michael Röskau
Guatemala	Manuel H. Maza Castellanos	Lizardo Sosa
Guyana	Bharrat Jagdeo	—
Haiti	Anthony Dessources	Fred Joseph
Honduras	Gabriela Núñez de Reyes	Victoria Asfura de Díaz
Israel	David Klein	Shay Talmon
Italy	Vincenzo Visco	Vincenzo Desario
Jamaica	Omar Davies, MP	Shirley Tyndall
Japan	Kiichi Miyazawa	Masaru Hayami
Mexico	Francisco Gil Díaz	Agustín Carstens Carstens
Netherlands	Gerrit Zalm	(Ms) Eveline Herfkens
Nicaragua	Francisco Aguirre Sacasa	Esteban Duque Estrada
Panama	Norberto Delgado Durán	Eduardo A. Quiróz
Paraguay	Francisco Oviedo	James Spalding
Peru	Javier Silva Ruete	Germán Suárez Ch.
Spain	Rodrigo de Rato y Figaredo	Juan Costa Climent
Suriname	Humphrey Stanley Hildenberg	Stanley Ramsaran
Switzerland	Oscar Knapp	Adrian Schläpfer
Trinidad and Tobago	Brian Kuei Tung	Victoria Mendez-Charles
United States	Lawrence H. Summers	Alan P. Larson
Uruguay	Alberto Bension	Ariel Davrieux
Venezuela	José Alejandro Rojas Ramírez	Jorge Giordani

Information as of December 2000

Executive Directors and Alternate Executive Directors

Name	Country
Edgar A. Guerra José Carlos Quirce	Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
Georges Cahuzac Andreas Hartmann	France, Germany, and Switzerland
Adina Bastidas Eduardo Linares	Panama and Venezuela
Jorge F. Baca Campodónico Germán Quintana	Chile and Peru
Álvaro Rengifo Toru Kodaki	Israel, Japan, and Spain
Roderick G. Rainford Luis Alberto Rodriguez	Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago
Lawrence Harrington	United States of America
Theo B. Timmermans Flemming Nichols	Austria, Denmark, Italy, and The Netherlands
Juan E. Notaro Orlando Ferreira Caballero	Bolivia, Paraguay, and Uruguay
Agustín García-López Héctor Santos	Dominican Republic and Mexico
Ricardo R. Carciofi Martín Bès	Argentina and Haiti
Daniel Oliveira Frederico Álvares	Brazil and Suriname
Fernando Tenjo-Galarza César Coronel	Colombia and Ecuador

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Management and Senior Staff

General Manager	Jacques Rogozinski
Division Chief, Corporate Finance	Steven L. Reed
Division Chief, Financial Services	Roldan Trujillo
Division Chief, Finance, Risk Management and Administration Division	Jorge Zelada
Legal Counsel	Raul Herrera
Chief Economist	Jorge Roldán
Chief Engineer	Philip James
Senior Credit Officer and Special Operations Coordinator	Mario Mahler

Support Staff

Chief Accountant	Shane L Bateman
Human Resources	Mildred Arroyo
Senior Portfolio Officer	Rigoberto Ordóñez
Treasurer	Barbara D. McGowan

Secretariat

Secretary	Carlos Ferdinand
Deputy Secretary	Armando Chuecos

As of December 2000