Inter-American Investment Corporation

Annual Report 2001

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Charts

Enrique V. Iglesias

29 January 2002

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

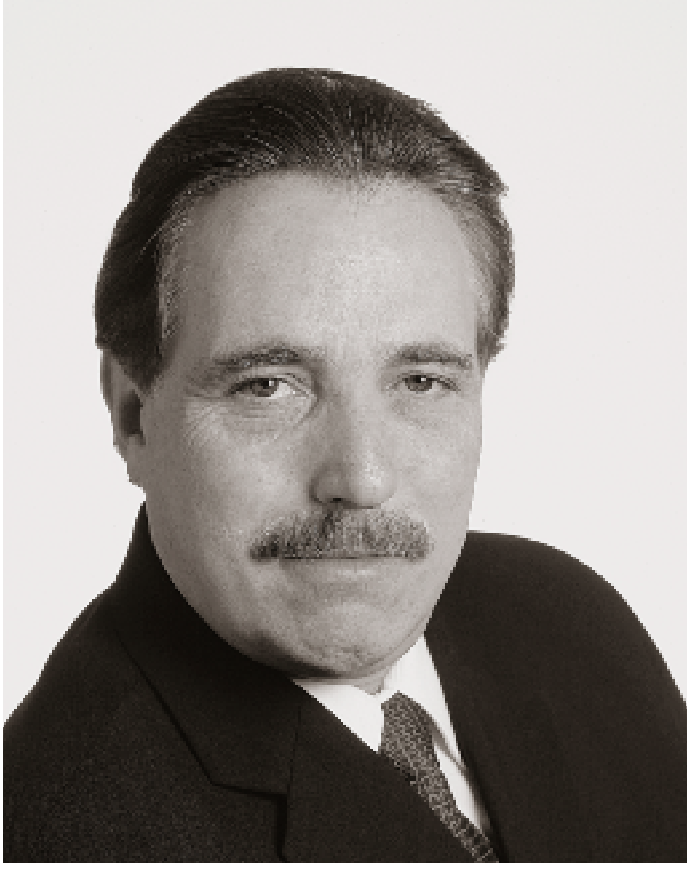
Mr. Chairman:

Pursuant to the provisions of Article IV, Section 9(a) of the Agreement Establishing the Inter-American Investment Corporation, I transmit to you the Annual Report of the Corporation for 2001 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, 2001.

Given the new international environment and its upsetting effect on the economy in the region, the institutions that make up the IDB Group, both individually and as a group, have reaffirmed their commitment to promoting sustainable economic and social development in Latin America and the Caribbean. The purpose of the Inter-American Investment Corporation is to assist small and medium-size enterprises in the region by helping to meet the pressing need for financing in the form of credit and equity investment. These enterprises continue to be a major engine for development with equity, since they create jobs, generate foreign exchange income, and enhance economic and social integration. Given the critical impact of financing on the pace of economic growth, the Corporation is strategically placed to provide support for small and medium-size enterprises, help develop opportunities for financial intermediation, and promote the development of local capital markets.

Yours sincerely,

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



Jacques Rogozinski

THE YEAR IN REVIEW

THE REGION: ECONOMIC OVERVIEW

In 2001 world industrial output entered the worst slowdown in two decades. Global economic growth is expected to be around 2.8 percent for 2001, marking a sharp drop from 4.8 percent in 2000. The Latin American and Caribbean economies felt the effects of this worldwide economic slowdown due to poor growth in the United States, Europe, Japan, and developing countries in Asia. Domestic factors, particularly weak domestic demand and credit, electric power supply problems, and adverse climatic conditions also had a negative impact. Projections from the Inter-American Development Bank indicate that regional growth will be around 0.7 percent for 2001, compared with 4.2 percent in 2000. The region is expected to grow between 2 percent and 2.5 percent in 2002 and between 3 percent and 3.5 percent in 2003, before returning to 2000 levels in 2004. These figures are tentative forecasts and could change depending upon the duration of the current economic downturn and the uncertainty introduced by recent global events.

Conditions within and without the region were less favorable than originally forecast, so 2001 was a discouraging year for most of the countries of Latin America and the Caribbean. The region's two largest economies, Brazil and Mexico, saw a significant drop in their growth rates. Costa Rica, El Salvador, Jamaica, Paraguay, Peru, and Suriname experienced similar trends, some of which were caused by lower international raw materials prices, weakened exports from free trade zones, and adverse climatic conditions. Argentina faced a worsening of the recession that has affected its economy during the last few years, and Colombia continued to perform below historical levels. Only Chile, Ecuador, and Venezuela in South America; Belize in Central America; and the Dominican Republic, Guyana, and Trinidad and Tobago in the Caribbean posted positive performances. Lower regional GDP growth pushed fiscal deficits higher, to around 3 percent of GDP from 2.3 percent in 2000. As a result, most of the region's economies will have higher financing needs in 2002, and this will inevitably affect the availability and cost of the financing that the region's small and medium-size companies need to be able to grow.

Slower economic growth will likely be accompanied by lower inflation. Regional inflation declined substantially over the past decade, from 830 percent in 1990 to 7.5 percent in 2000, and is projected to decline even further, to around 5 percent in 2001 and 2002. Nineteen of the IIC's twenty-six regional member countries are expected to post singledigit inflation rates for 2001. Falling inflation had been leading to steady growth in internal savings and investment rates, attracting, for example, significant foreign direct investment flows, which grew 34 percent annually from 1992 to 2000.

But this positive trend reversed in 2001 when, according to Inter-American Development Bank estimates, overall foreign direct investment in emerging markets fell from $160 billion to around $100 billion. A partial recovery is expected in 2002 to probably $120 billion. As for Latin America and the Caribbean, foreign direct investment fell by some $10 billion in 2001.

Nor has the picture been promising for domestic investment, whether public or private. Several countries of the region posted negative growth in this area, although in most cases this indicator is expected to improve in 2002. Region-wide, fixed gross investment should go from 17.1 percent of GDP in 2001 to 17.4 percent in 2002.

Despite lower investment flows, the repercussions of recent global events could make the Latin American and Caribbean region relatively more attractive for investors, both domestic and foreign. And the macroeconomic and microeconomic factors that made Latin America and the Caribbean attractive for investment are still present. These encompass gains in consolidation of democracy, regional integration, open trade, responsible fiscal policies, better regulation of financial systems, and a modern legal framework for investments.

To further unlock the region's productive potential, long-term financing needs to be made available for investment and channeled to the productive sectors to support an economic recovery. Investments in infrastructure also are needed to improve productivity and raise standards of living.

Latin American and Caribbean companies are in the process of realigning their businesses and focusing on their core holdings. This process should favor small and medium-size companies, especially in the context of lower dollar interest rates. In order to maintain their share of domestic and foreign markets, companies throughout the region increasingly need access to capital. The Corporation will seek to meet the needs of its target market by deploying its resources in the most effective manner, both directly and indirectly. It will maintain a disciplined approach to lending and investing, and it will diligently manage its resources to achieve a balance between its developmental mandate and the pursuit of suitable financial returns.

The IIC's Role in the Region

In sectors and areas where credit or capital is hard to secure on reasonable terms, the Corporation continues 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 are the tools that enable the IIC to reach the greatest possible number of such companies; its financial intermediation program and its investments in private equity funds are good examples. The Corporation's equity investment activities 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 continues to strive to achieve its other goals: promote exports and technology and infrastructure modernization, and protect the environment as an essential part of sustainable development. The IIC also makes 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.

In uncertain economic times it can be more difficult for small and medium-size companies to obtain long-term financing. Foreign direct investment in such companies can fall dramatically, as can international demand for the goods that they export. The IIC's role in providing financing on reasonable terms and catalyzing funding from other sources becomes more important in such times. The problems that small and medium-size companies face during economic downturns are taken up in a separate section of this annual report.

The Corporation

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 2001 approvals will lead to the creation of more than 38,000 jobs, generate annual exports worth $129 million, and contribute $430 million per year to the region's gross domestic product. The $128 million approved in 2001 will support the implementation of projects with a total cost of $673 million. For every dollar earmarked by the Corporation for year 2001 approvals, five dollars will go to investment projects.

Cumulatively, the IIC has channeled funding to more than 2,590 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 $762 million in funding provided by the IIC in the form of loans and equity investments, plus $400 million in funds that the Corporation has mobilized through cofinancing arrangements. For each dollar that the IIC has invested, six dollars are going to companies that have created about 205,000 jobs and generate $2.8 billion in foreign currency for the region each year. Operations in countries with larger economies amount to $622 million, while those in the smaller economies of the region total $416 million, i.e., 60 percent and 40 percent of the portfolio, respectively. Projects with regional coverage total $202 million. Of the IIC's committed investments, 87 percent had been fully disbursed by December 31, 2001.

Portfolio and Credit Risk Management

Effective, productive deployment of the resources subscribed 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 appraisal 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 or recover its assets.

Credit risk and asset quality management was given renewed impetus in 2001 with the creation of a Credit Unit and a Credit Committee. The Credit Unit's mission is to provide the Credit Committee with an assessment of each project company's credit risk and of the proposed pricing, structure, and security package for each transaction. The Committee, which is responsible for the final recommendation as to whether to present projects for Board consideration, thus focuses primarily on credit issues and on ensuring that loans and investments are structured in accordance with the project company's risk profile. Noncredit issues such as project developmental and environmental impact, international private sector and capital markets resource mobilization, and IIC policies, are central to IIC's mandate and are taken into account in the process of deciding whether to submit a project to the Board of Directors. To this end, input on these aspects of each project proposal is received prior to the final Credit Committee meeting. IIC Management believes that the Credit Committee, as a body focusing specifically on credit risk, will contribute to shaping a proactive credit culture within the IIC and, hence, further enhance IIC's ability to perform its developmental mandate.

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 Credit 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 projects.

On a higher level, a Special Ad-Hoc Committee of the Board of Directors provides a forum for discussing recovery 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 2001

The Corporation is operating under the ten-year program that accompanied its capital increase approved in 1999. The Three-Year Business Plan for 2000–2002 was the first in a series of action plans to implement the ten-year program. The IIC's performance during the first two years of the original business plan has been satisfactory from the point of view of preparing the institution to meet the general objectives set forth by the member countries. The Corporation is striving to meet the operational and financial objectives in an adverse macroeconomic climate that includes lower international interest rates.

In terms of the quality of IIC assets, the Corporation has adopted a more conservative approach in the valuation of possible portfolio losses. This has resulted in a strengthened provisioning process to better identify and quantify the risks and value of the investment portfolio. To protect existing assets, the supervision function has been strengthened. In addition, the Special Operations Unit has been successful in recovering impaired assets. The ex-post evaluation function has been defined, and project evaluations are being carried out according to plan.

In 2001, the Corporation identified sixty-three potential projects in twelve countries; forty-four were not considered because they did not meet basic IIC criteria regarding size, additionality, or perceived risk, among others. The remaining nineteen passed on to the formulation and design phase. As a result, nineteen transactions were submitted for consideration and approval by the Board of Executive Directors.

This year, the IIC's Board of Directors approved nineteen projects in eleven countries totaling $128 million. Twenty-three percent of the funds approved were for equity investments and 77 percent were for loans. Two of the three equity investments went to developmentally oriented country or regional investment funds. These funds have a total capitalization of $350 million, providing a 17.5:1 leverage of the IIC's own equity investments for the year. Three of the loans will be cofinanced; these operations will use $25 million of the Corporation's own resources to mobilize a total of $35 million in funding from banks and other third parties.

IIC income from all sources in 2001 amounted to $32 million. Income from lending operations totaled $22 million ($20 million from interest and $2 million from fees). Capital gains and dividend income from the equity investment portfolio totaled $3 million for the year. Total expenses, including $26 million in provisions, were $47 million, producing a net loss of $15 million.

The substantial increase in loss provisions reflects the Corporation's prudent approach to the unfolding economic downturn affecting some of its member countries, as well as its strict adherence to conservative accounting practices.

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 Credit Committee is also the "operations committee" for Multilateral Investment Fund operations in the latter's equity investment approval process.

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 2001 the Corporation appraised one MIF equity investment initiative that is regional in scope and evaluated ten other MIF-supported investment funds in Brazil, Chile, Colombia, Ecuador, and Trinidad and Tobago.

AIG-GE Capital Latin American Infrastructure Fund

The IIC continued to lend 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 and monitoring services for nineteen projects.

Other Special Funds

In 2001 the Corporation conducted eight 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 $585,000 in technical cooperation funds were channeled through the IIC during 2001.

Institutional Affairs

The Partnership Grows

The Board of Governors approved the admission of five new shareholder countries—Belgium, Finland, Norway, Portugal, and Sweden—to the IIC. As of the date of this report, Sweden had completed all of the legal requirements for membership, and the other countries were at various stages in the process.

Issuer Rating for IIC

The Inter-American Investment Corporation was assigned an Aa2 rating by Moody's Investors Service. The rating was based on both qualitative and quantitative factors and on assumptions as to the IIC's future debt issuance levels and loan portfolio performance. Moody's also considered that the $300 million the Corporation obtained through the IDB's Multi-Sector Global Credit Program is a key element that supports the assigned rating.

The agency's decision also ratifies the significant capital commitments from the IIC's regional and non-regional shareholder countries in the form of a $500 million capital increase approved in 1999.

Moody's decision represents its assessment of the Corporation's ability to honor its unsecured financial obligations and may be viewed as a proxy for a senior unsecured debt rating.

In December 2000, Standard & Poor's assigned its AA counterparty rating to the IIC. These two ratings put the IIC in a good position to mobilize additional funding from the financial markets.

Finpyme

Finpyme (*Financiamiento Innovador para Pequeñas y Medianas Empresas*) is one of the initiatives referred to in the IIC's Three-Year Business Plan adopted after the increase in the Corporation's capital. Finpyme is a pilot program using a diagnostic review methodology for identifying and evaluating projects and making small and medium-size companies more competitive. It is a response to the need to bolster the Corporation's project pipeline while streamlining project processing and gathering useful information on the business environment in which the region's private sector operates. The methodology was designed with the assistance of the Spanish firm Ikei, which presented a comprehensive proposal based on its experience with small and medium-size companies. The start-up of the initiative was financed in part by the Fondo Español de Consultoría-ICEX and funds from the IIC budget.

The information gathered on the business environment using the Finpyme methodology will be useful for future Inter-American Development Bank programming missions and will make it possible to provide governments with recommendations on how to eliminate the obstacles to investment faced by small and medium-size companies in the region.

As of the date of this report, the Corporation has received thirty diagnostic reviews from Chile and twenty from Bolivia. They are being evaluated to determine the possibility of funding the projects proposed by the companies that scored the highest on the scale defined by the Finpyme methodology.

CIFI

The IIC, together with leading financial institutions from Europe and the region, signed a shareholders agreement for establishing the Corporación Interamericana para el Financiamiento de Infraestructura (CIFI). The IIC will invest $10 million in CIFI, which will finance small and medium-size infrastructure projects in Latin America and the Caribbean as a way to further the region's economic development and channel additional funding from private sources outside the region.

More information on this innovative project can be found in the following section on the year's projects.

Environmental Issues

In June, representatives from twenty-seven financial institutions from ten Latin American and Caribbean countries attended an IIC-sponsored environmental management workshop. This year's workshop was cohosted by the International Finance Corporation and Corporación Andina de Fomento as part of an inter-institutional effort to step up cooperation and simplify the transmittal of information to mutual clients.

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.

Industrial Bank of Japan

The Corporation and the Industrial Bank of Japan signed a two-year, $100 million revolving line of credit. The IIC will use the proceeds to provide funding for small and medium-size companies in Latin America and the Caribbean.

Israel Export Institute

The Corporation signed a memorandum of understanding with the Israel Export Institute. The two organizations will work together in Latin America and the Caribbean by exchanging information and publications, providing logistical support, and identifying potential partners and investors for forming joint ventures between Israeli companies and small and medium-size enterprises in the region.

2001 Annual Meeting

The XVI Annual Meeting of the Board of Governors took place in Santiago, Chile, from March 19 to 21, 2001. During this meeting, the Governors approved the IIC's financial statements for the year ended December 31, 2000, as well as the Corporation's annual report. Prior to the meeting, the IIC hosted a seminar on the role of the private sector in spurring economic growth in Latin America.

Looking Ahead

Within the IDB Group's broad goal of furthering the economic and social development of Latin America and the Caribbean, the IIC is seeking to enhance its own contribution as set forth in its business plan approved by the Board of Executive Directors. Housing and education—both of which are key to economic and social progress—are two areas in which private enterprises can make a significant contribution. A good example is the provision of housing for low- and medium-income families, using local, private savings as a source of funding by establishing long-term investment instruments that support the development of local capital markets.

The IIC can add value to projects in these areas and help them materialize. When it was developing its first Brazilian mortgage sector project (approved in 2000) the IIC worked very closely with the Comissão de Valores Mobiliários (Brazil's equivalent to the Securities and Exchange Commission in the U.S.) so that the Comissão would approve the structure of the mortgage-backed securities that the project involved. This made the project both viable and replicable and made it possible to issue such securities for the first time in Brazil. The Brazilian Mortgages and Brazilian Securities projects approved this year (see details in the following chapter) will help introduce *Cédulas de Crédito Imobiliário*—a newly created collateralized real estate loan obligation—into Brazil's expanding mortgage securitization market.

In the education sector, this year the Corporation approved its first project in the form of a loan to Universidade do Sul de Santa Catarina in Brazil. This private university has five campuses in Brazil. It charges low, competitive tuition fees and, in addition to processing federal financial aid for students that qualify, created its own student loan program. Besides supporting the expansion of basic and higher education in Brazil, with this project the IIC seeks to develop expertise in this sector and hopes to make the UNISUL project the first in a series. One of the Corporation's goals is to identify the major risks usually entailed in investing in this crucial sector and find ways to mitigate them. For more details on this particular operation, please refer to the section on the year's investment activities.

The Corporation also took on several issues that will help shape its policies and operations. These issues—additionality, governance, and fraud and corruption—are not easy to address because they are complex and sensitive. But the Corporation's duty to its constituency requires that they be attended to.

Additionality

In the policy debate on the role and policies of international financial institutions, a recurring concern is the need to keep the funding they provide from substituting privately available capital or otherwise distorting market incentives or the normal assumption of business risks by private investors, especially those who can tap other sources of finance and have access to foreign capital markets. In this connection, it is widely held that public funds invested in private sector projects are warranted provided that they can be shown to yield a demonstrable level of *developmental additionality*. This term is broadly understood to cover a large array of economic, environmental, and labor benefits. Among these benefits are job creation, human and material resource development, environmental protection, and promotion of international labor standards.

Fostering and measuring this *additionality* in IIC operations is at the core of the Corporation's statutory mandate and strategic orientation. In 2001, IIC Management opened a dialogue with its Board, project teams, clients, and other stakeholders in Latin America and the Caribbean. This ongoing dialogue focuses on projecting, measuring, and monitoring additionality in IIC operations. It is also exploring the potential tradeoffs between developmental impact and project risk. An instrument for appraising and monitoring IIC additionality is now under development for implementation at the beginning of 2002.

Governance

Governance is a broad concept that covers the management of issues on a corporate, national, and multilateral level. Developmental institutions like the IIC can further corporate and national governance in their member countries by disseminating and rewarding best business practices and helping strengthen domestic legislation in such areas as accounting standards, protection of minority shareholder rights, promoting transparency in government, and tackling the thorny issue of fraud and corruption. They must also ensure their own good governance by safeguarding the transparency of their own operations and accountability for their own financial and developmental performance.

A framework paper on governance submitted to the IIC Board in 2001 will serve as a basis for making policy decisions on the role of governance in improving company management and capital valuation.

Fraud and Corruption

Of the key issues taken up by the IIC this year, fraud and corruption may be the hardest to discuss. Moreover, there is a widespread tendency to associate fraud and corruption more with the public sector, which is outside the IIC's purview. But they do affect the private sector as well, so the Corporation submitted to the Board of Directors a proposal for establishing an independent oversight mechanism for investigating allegations of fraud and corruption. The proposal emphasizes zero tolerance for fraud and corruption and discusses prevention and dissuasion, accountability, and legal recourse and resolution mechanisms.

The IIC places great importance on the advancement of transparency in its operations through sound financial management practices. The IIC is also committed to maintaining zero tolerance regarding fraud and corruption and to ensuring the integrity of its operations. This commitment applies internally to the IIC's Management and staff as well as externally in its dealings with client companies. The IIC has internal and external procedures in place to assess the risks of corrupt practices in its operations.

At their heart, all three issues—additionality, governance, and fraud and corruption—have to do with accountability. Developmental institutions should be held accountable for their use of public funds, and for addressing these and other issues concerning the role of developmental multilaterals. In the light of these discussions, the Inter-American Investment Corporation will continue to fine-tune its policies and the tools it uses to make the best use of the funds that its member countries have entrusted to it.

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 that have 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 terms 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.

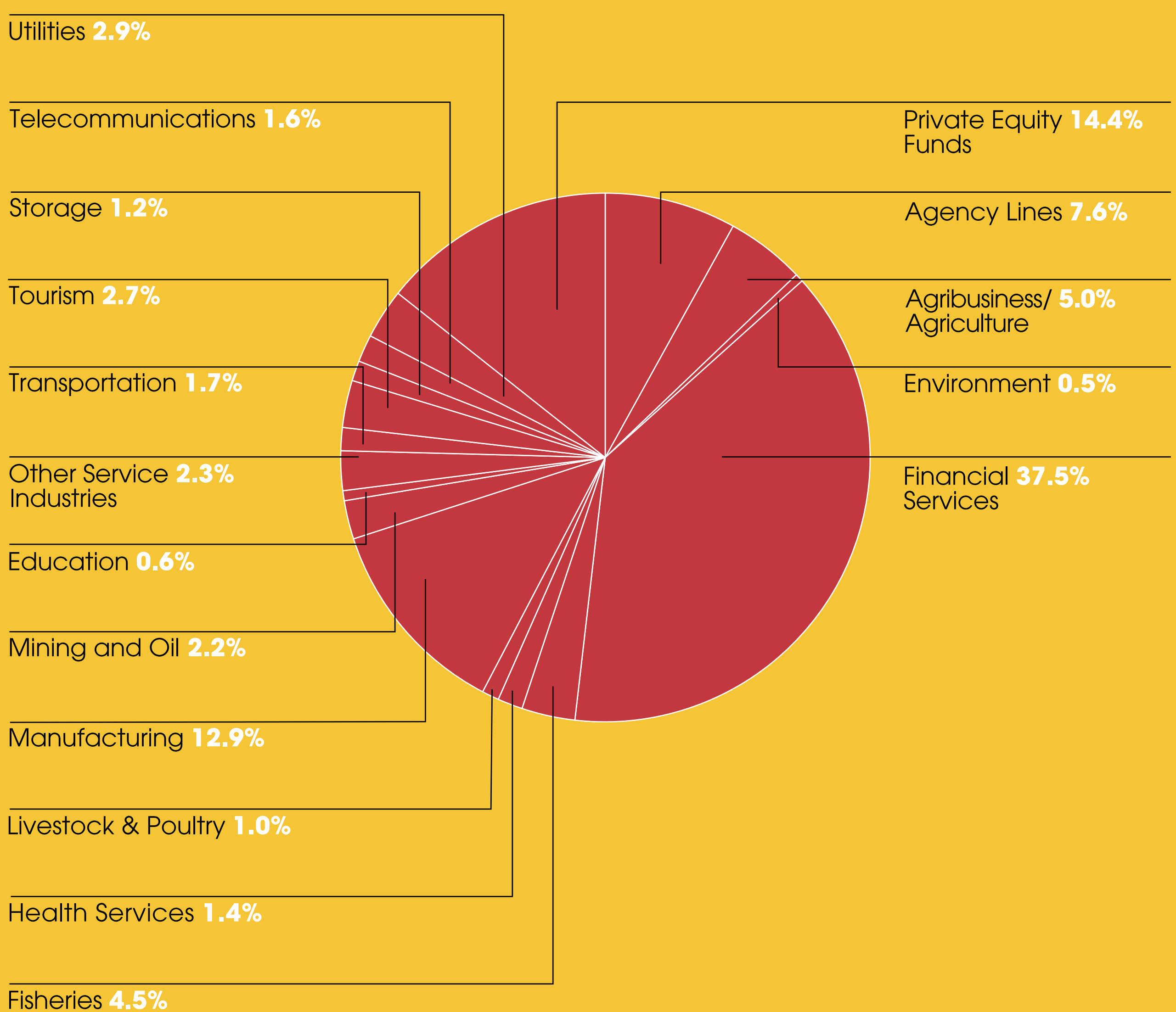
During 2001, the Corporation received sixty-three funding requests; forty-four were not considered because they did not meet basic IIC criteria regarding size, additionality, or perceived risk, among others. Nineteen proposals were considered at an initial stage. As a result, nineteen transactions were submitted for consideration and approval by the Board of Executive Directors.

Sixteen of the operations described below include loans totaling $98 million; three include equity investments totaling $30 million. This year's three cofinanced loans will mobilize an additional $55 million in funding, and the two 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 2001 is $673 million.

COUNTRY	PROJECT DESCRIPTION	IIC Loan US$	IIC Equity Investment US$	Project Cost US$
Regional	The IIC is making an equity investment in **The Cori Capital Partners, L.P.**, a fund that will in turn make equity and quasi-equity investments in privately held small and medium-size Latin American companies in industries undergoing regional and/or global consolidation. The fund's objective is to provide equity or equity-linked capital to companies seeking to increase their revenues, enhance the profitability of their operations, implement structural changes with impact on social and environmental indicators, and rationalize their capital structure. Many of the fund's investments are likely to be growth financings, recapitalizations, or acquisition financings. Cori Capital's fund has a target capitalization of $300 million; although it may invest in any country in the Latin American region, it has a specific goal of investing no less than 30 percent of its capitalization in countries that are not major markets in the region. This goal is in line with the IIC's commitment to channel more funds to countries that are underrepresented in its own equity portfolio. The IIC will require that the fund manager carry out an environmental review of each of the investee companies. The review will include compliance with national environmental, safety, and labor laws and regulations and IIC's environmental and labor guidelines.		$10 million	$300 million
	Corporación Interamericana para el Financiamiento de Infraestructura (CIFI) will fund small and medium-size infrastructure projects in Latin America and the Caribbean. The creation of CIFI is the result of efforts by Caja Madrid and the IIC to provide funding to this key sector. This innovative project has attracted the participation of public and private financial institutions, including Banco de Galicia y Buenos Aires (Argentina), Caixa Geral de Depósitos (Portugal), the Caribbean Development Bank, the Central American Bank for Economic Integration, Republic Finance and Merchant Bank (Trinidad and Tobago), Unibanco (Brazil), Primer Banco del Istmo (Panama), and Banco del Pichincha (Ecuador). Such a combination of multilaterals, Latin American regional banks, and European institutions working to develop the region's infrastructure is unprecedented. CIFI will transfer part of its profits to a regional development fund, thus introducing—for the first time from a mixed international financial institution—the concept of "social dividend." The fund will be cofinanced by the Multilateral Investment Fund, an IDB Group institution. During CIFI's first five years of operations, approximately 110 small and medium-size projects ($1.070 billion) are expected to be financed in the infrastructure sector, thus achieving a significant multiplier effect vis-à-vis the funding provided by the IIC. It is estimated that through CIFI the IIC will help to cover, indirectly, around 2 percent of the total small and medium-scale infrastructure investment requirements in Latin America and the Caribbean.		$10 million	$50 million

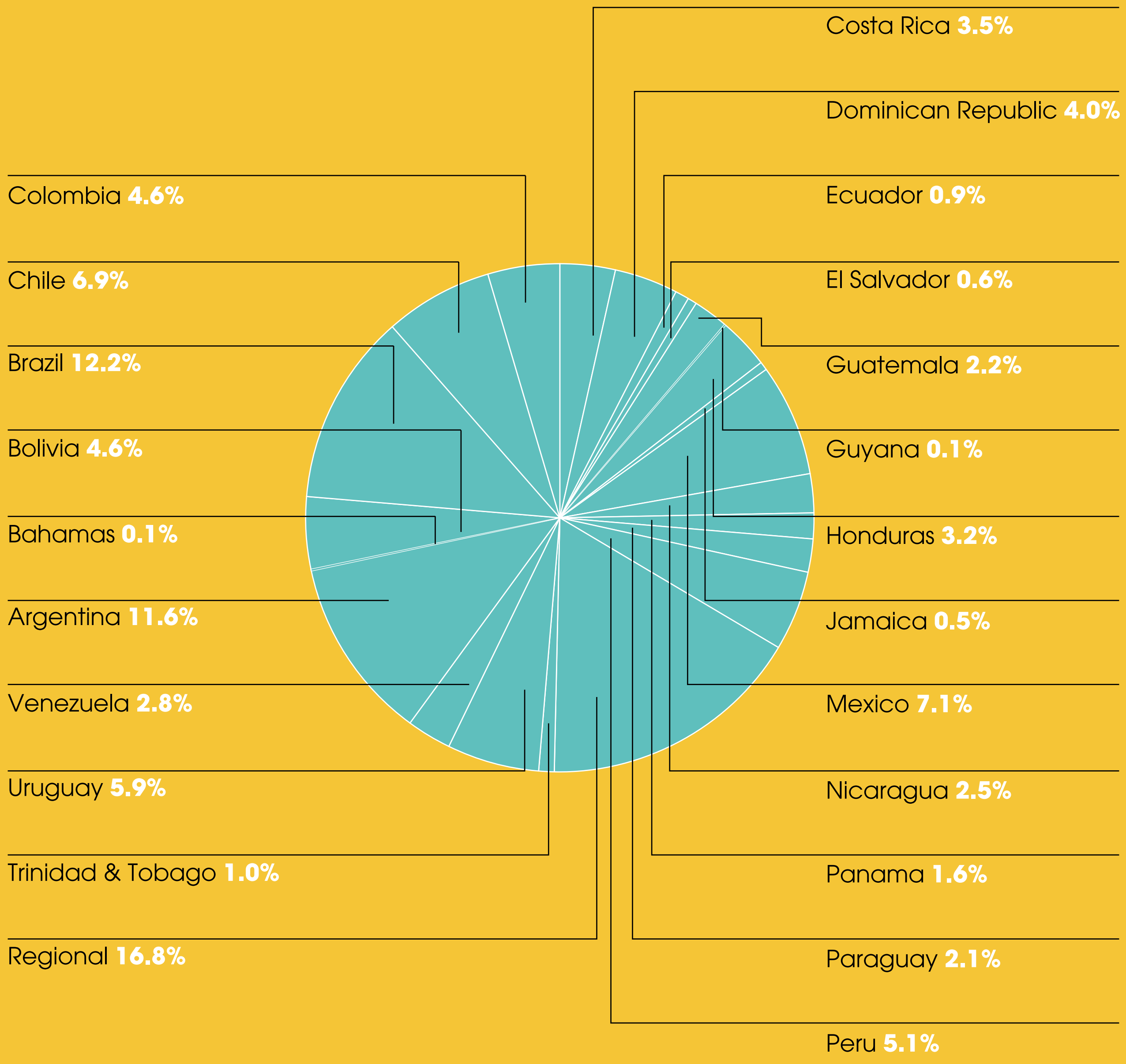
COUNTRY	PROJECT DESCRIPTION	IIC Loan US$	IIC Equity Investment US$	Project Cost US$
Argentina and Chile	**Publicidad Sarmiento** is an outdoor advertising company that provides municipal governments with useful structures, such as bus stops and information signs, and sells advertising space on them. The project covers the start-up of Sarmiento's Chilean affiliate, the expansion of its activities in Argentina, and investments in information systems. It also includes the planting of trees in urban areas, the installation of battery collection containers, an environmental protection awareness campaign, and the installation of public playgrounds. The project will create thirteen direct jobs.	$6.5 million		$13 million
Bolivia	**Maderera Boliviana Etienne S.A.**, a manufacturer of wood doors and flooring, will increase its production capacity and expand its product range by acquiring forest land to be managed sustainably, building storage space, and purchasing drying kilns and manufacturing and sawmill machinery. The project also includes obtaining certification from the Forest Stewardship Council (FSC) for the forestland, sawmill, and door plant, enabling the company to export its products with the FSC seal as long as it uses certified wood. This component of the project contributes to the conservation of Bolivia´s forest resources, biodiversity, and watersheds. The Maderera Boliviana project, which relies in large part on local raw materials and labor, will also generate $7 million in high added value exports for Bolivia by 2005. In addition, it will create 230 jobs in economically disadvantaged areas of Bolivia.	$3.5 million		$7.3 million
Brazil	**Banco Santos S.A.** will use a loan from the IIC for medium- and long-term on-lending to small and medium-size private companies in Brazil. The subloans—which will not exceed $3 million each—will be used to finance capital goods and/or working capital for companies whose total assets do not exceed $25 million or groups of companies whose net sales total no more than $50 million. The beneficiaries of the up to twenty subloans will be companies operating in the industrial, service, and commerce sectors, mainly suppliers to multinational companies established in Brazil. This IIC operation is in line with the Inter-American Development Bank's strategy of promoting the productive sectors of the Brazilian economy by fostering the development of small and medium-size companies. In the process, the operation will help create up to two hundred jobs.	$10 million		$10 million

Breakdown, by Sectors, of Net Financing Approved (as of 12/31/2001)



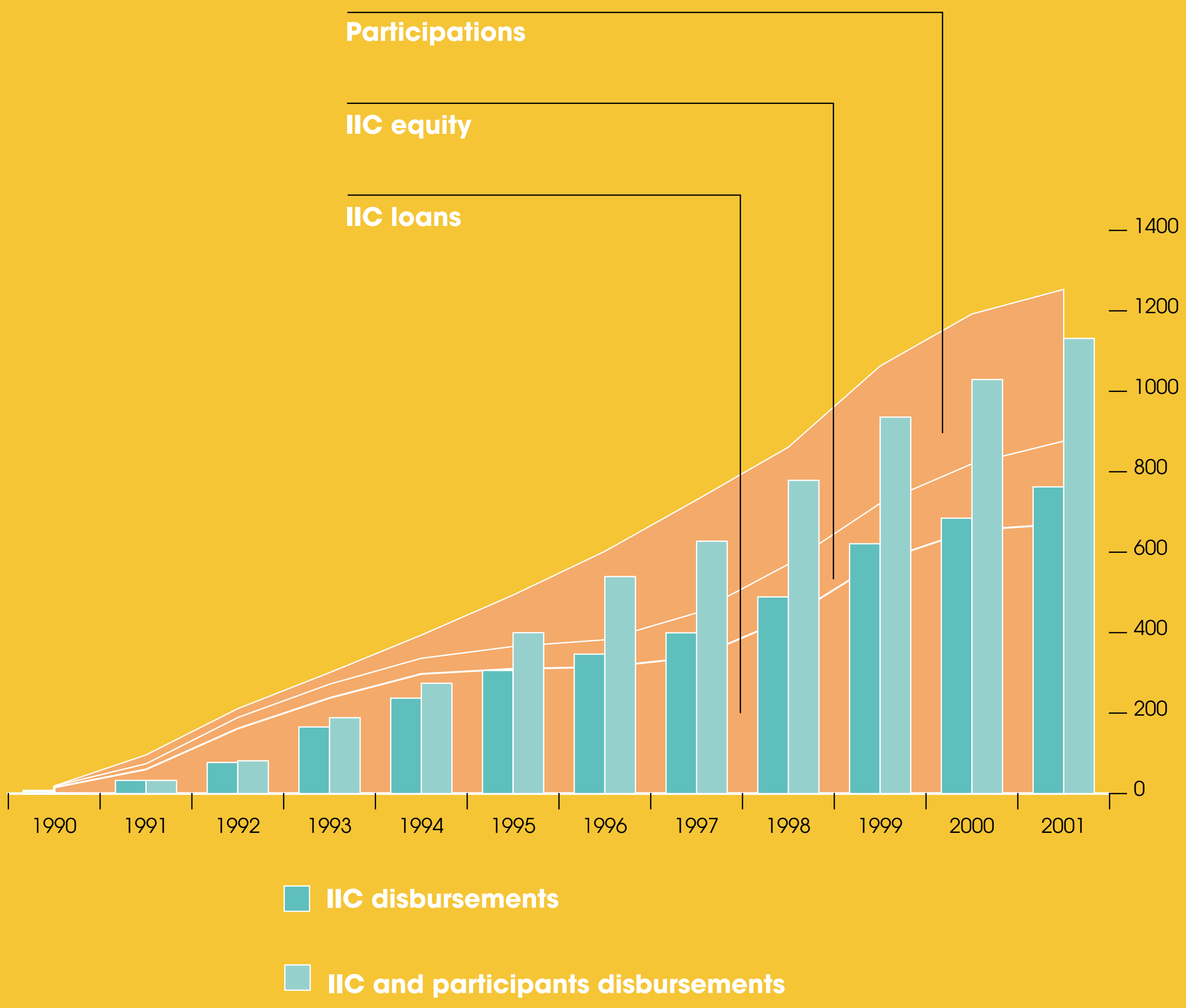
COUNTRY	PROJECT DESCRIPTION	IIC Loan US$	IIC Equity Investment US$	Project Cost US$
	The IIC has provided **Brazilian Mortgages Companhia Hipotecária*** and **Brazilian Securities Companhia de Securitização**** with purchase facilities for acquiring collateralized real estate loan obligations fully hedged against foreign exchange risk, collateralized by the underlying mortgages. The facilities will enable Brazilian Mortgages Companhia Hipotecária to provide home equity loans to individual homeowners and originate mortgage loans. They will enable Brazilian Securities Companhia de Securitização to acquire larger volumes of mortgages for subsequent securitization. This will permit both companies to further expand the market for rated mortgage-backed securities in the Brazilian capital markets, as a new long-term investment instrument for institutional investors. Both companies will target mainly the middle to lower-income residential segment with an average housing price of $50,000. By helping consolidate a liquid secondary mortgage market in Brazil, the project will improve the quality of life of low and middle-income families by enabling them to become homeowners, move to better neighborhoods, or improve their existing homes.	*$5 million **$10 million		*$15 million **$25 million
	Fábrica de Papel Santa Therezinha is a privately-owned semiintegrated producer of tissue and special light paper products that will modernize its manufacturing facilities and develop feminine care products, resulting in a broader product mix. It will also increase its waste paper recycling capacity (the IIC's financing is primarily for this component of the project) and improve its handling of paper production waste. It is estimated that $2.8 million in virgin cellulose will be saved annually thanks to substitution of recycled paper in the company's production process. Besides preserving natural resources, the project will create fifty permanent jobs in addition to the temporary jobs required during project implementation.	$10 million		$23.6 million
	Universidade do Sul de Santa Catarina (UNISUL) provides a broad range of education levels from preschool, elementary, and secondary to day and evening undergraduate and postgraduate programs. The project will support UNISUL's expansion, which entails the construction, expansion, and rehabilitation of several campuses; the acquisition of land for future expansion and construction of a primary school; the updating of information technology and management information systems; and the refinancing of short-term debt. IIC's loan to UNISUL is its first ever in an education project. The project will increase the enrollment of 18- to 24-year-olds in higher education, thus supporting the Brazilian government's national education plan, which seeks to increase the enrollment of this group from the current 11 percent to 30 percent in the next ten years.	$6 million		$42.3 million

Approved Projects by Country
(as of 12/31/2001)



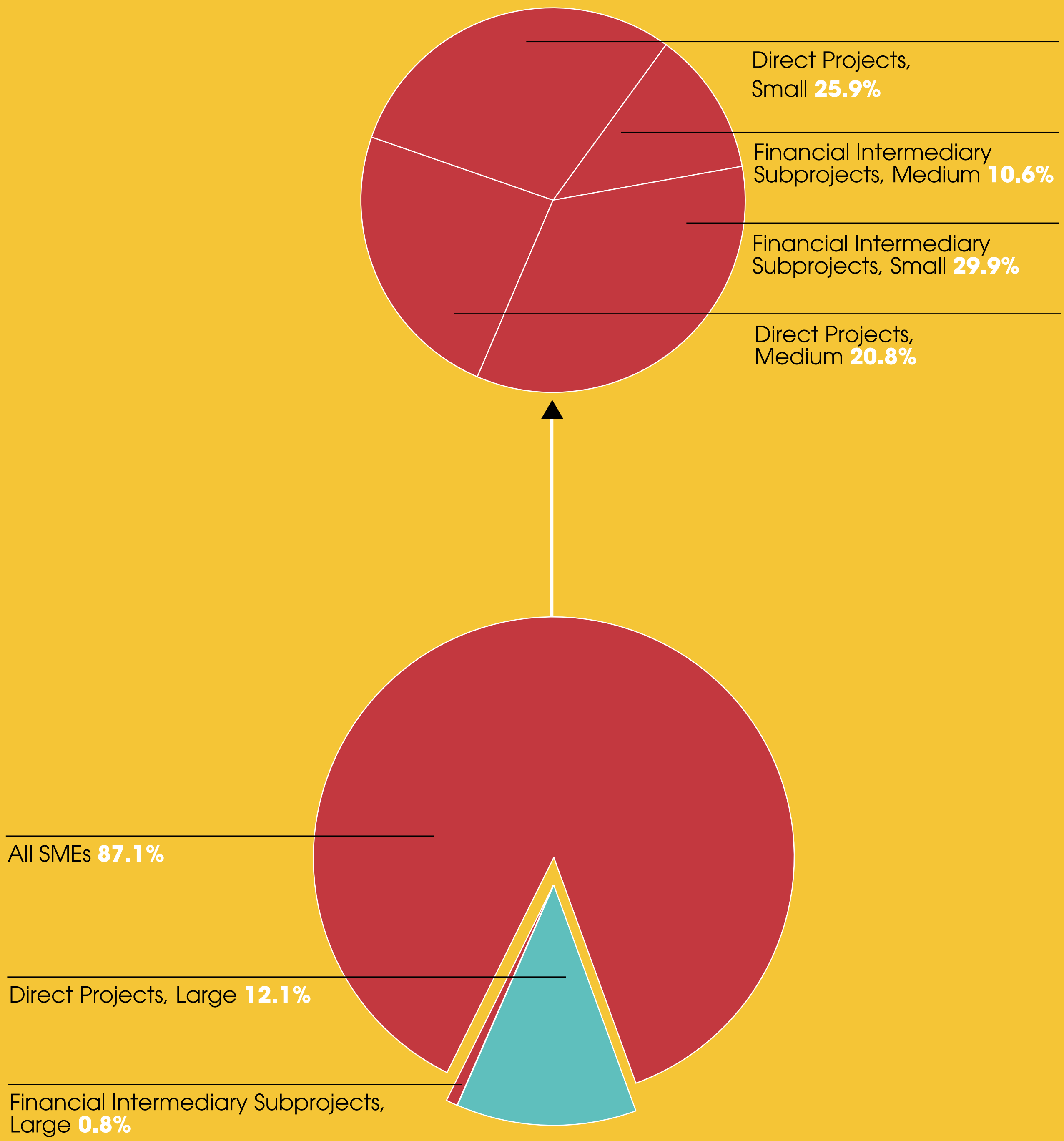
COUNTRY	PROJECT DESCRIPTION	IIC Loan US$	IIC Equity Investment US$	Project Cost US$
Chile	**Banco del Desarrollo** serves many of Chile's small and medium-size companies and microenterprises. It also has a 20 percent share of the low-cost housing finance market and is the market leader in education finance. In addition to increasing its market share, the bank wants to develop new products to serve microentrepreneurs and foster their development; develop a regional presence for itself; hold on to the leadership achieved in financing the construction of low-cost homes; become the leading bank in the education sector; and continue focusing on low-income socioeconomic sectors by promoting innovative savings and loan products.		$10 million	$25 million
	Invertec Pesquera is a vertically integrated sea farming company that produces mainly Atlantic salmon, Pacific salmon, and trout in the region of Chiloé in the southern part of Chile. The project will increase Pesquera's salmon production capacity (from 20,000 to 35,000 tons per year) and further improve its technology, marketing, and environmental management. The company will thus be able to attain a leading position and remain competitive in a global market. Because of its comparative advantages, Chile is in a position to become the world's largest salmon producer by the end of the decade if the salmon producers have access to appropriate financing.	$4 million		$25.2 million
Colombia	**Biofilm** produces and sells biaxially oriented polypropylene, which is used in the flexible packaging industry, mostly for food product wrapping but also for adhesive tapes, labels, and other products for the graphic arts. The project involves building a new production line that will enable Biofilm to increase production capacity by 75 percent. The increased production capacity will be used mainly to meet the unfilled demand for Biofilm products in foreign markets and to increase its share of the local market. The Biofilm project will create forty direct jobs and generate significant foreign exchange revenues over the next several years.	$7 million		$41 million
Colombia and Ecuador	**Comercializadora Internacional Falcon Farms de Colombia, S.A.** and **Falcon Farms de Ecuador, S.A.** are flower growers and exporters. They plan to purchase land, rose plants, and irrigation equipment, build greenhouses, and improve their agrochemical application and environmental management practices, including certification in ISO 14000 environmental management systems. The project will enable a locally owned, medium-size company with farm operations in Colombia and Ecuador to improve its competitive edge and will help it face the world-class corporations that are entering the flower business. The flower industry is vital for other industries such as plastic, cardboard, rubber, wood, agrochemicals, and road and air transportation. It is also very labor intensive, and the project is expected to	$5 million		$12 million

Cumulative Committed Portfolio as of 12/31/2001 (US$ millions)



COUNTRY	PROJECT DESCRIPTION	IIC Loan US$	IIC Equity Investment US$	Project Cost US$
	create approximately 700 direct jobs in Colombia and Ecuador. The Falcon Farms project will also generate a total of $37 million in foreign exchange for Colombia and $32 million for Ecuador.			
Ecuador	The IIC approved a loan to **Florícola Cananvale**, a successful flower exporter. The loan financed the expansion of the company's flower production for export. The project introduced proven technology to increase the yields in the plantation located 60 km north of Quito. The loan was made jointly with the Latin American Agribusiness Development Corporation under an agency agreement between it and the IIC approved in 1999.	**$325,000**		**$2.5 million**
Nicaragua	**Café Soluble S.A.** produces spray-dried instant coffee, roasted and ground coffee, and cereal; it also locally markets and distributes international brands of consumer products. The company turns an agricultural commodity into a high value added, exportable product. Café Soluble's plant is currently operating at full capacity. The project calls for modernizing the coffee processing plant, refurbishing buildings, improving environmental conditions, installing a wastewater treatment plant, and modernizing and expanding the cereal plant. The project will also help upgrade the company's environmental management, bringing it up to international standards.	**$2.4 million**		**$5.4 million**
Paraguay	**Emprendimientos Hoteleros S.A.** will build the Four Point Sheraton Asunción Hotel, a ten-story, 125-room business hotel. The facilities will include a convention center, a business center, a restaurant, a cafeteria, a recreation area, and other amenities, all built to internationally accepted safety standards. The project will involve the transfer of hotel management and operating know-how to Paraguayan nationals; it will also create 90 direct jobs and 270 indirect jobs.	**$3.6 million**		**$12 million**
Peru	**América Leasing S.A.** will use a loan from the IIC to provide financing to small and medium-size companies in Peru via medium- and long-term finance leases. Such companies often lack access to long-term local funding for modernizing their productive installations or expanding their operations. In addition to generating value added for Peru at an average of $1.3 million per annum, this operation will increase by about twenty-five the number of small and medium-size companies financed by the IIC through financial intermediaries. América Leasing will be required to ensure that the lessee companies comply with IIC environmental protection and labor standards.	**$5 million**		

Breakdown of Disbursements by Enterprise Size as of 12/31/2001



COUNTRY	PROJECT DESCRIPTION	IIC Loan US$	IIC Equity Investment US$	Project Cost US$
Uruguay	The **Camino a las Sierras S.A.** project involves upgrading and operating an 85-km section of the *Ruta 8* toll road between the cities of Pando and Minas in Uruguay. The work will include repaving a section of the road, repairing the shoulders, building an overpass and a grade crossing, improving the lighting and signs, and reinforcing a bridge. Recovery of this road will help improve commercial traffic and transit safety between Uruguay and Brazil, Uruguay's main trading partner. *Ruta 8* is also very important to the local economy, because it links Montevideo to an area strong in cattle growing and forestry production, and the country's main rice producing areas. The project will create some seventy jobs during the road reconstruction phase and will also create about thirty permanent jobs.	$4 million		$10.8 million
	Carmitel S.A. will renovate, remodel, and operate (under a thirty-year concession) a landmark hotel in Montevideo owned by the city council. The building was declared a national historical monument in 1975, which means that its facade may not be altered in the renovation process. The finished hotel will have 118 rooms and amenities in keeping with international safety standards for a five-star hotel. During the two years it will take to complete the renovation and construction work, the project will provide 300 to 400 temporary jobs. Subsequently, the hotel will create approximately 97 permanent jobs, as well as some 290 indirect jobs.	$6 million		$18 million
Venezuela	**Standard Seafood de Venezuela, C. A.** is a shrimp farming company that has developed a methodology for growing environmentally-adapted shrimp varieties in lower salinity water, allowing the company to operate shrimp farms in an environmentally sustainable manner. Standard Seafood's aquaculture project consists of expanding its operations in response to the growing demand for aquaculture products; designing a biosecurity program so as to better address disease risk and overall productivity at the hatcheries; and constructing two new processing plants close to the farms. The project will support a leading operator in a nontraditional export sector, increasing the company's foreign exchange earnings to $67 million per year within five years and generating 628 direct jobs and 200 indirect jobs.	$10 million		$37.2 million

THE ECONOMIC CRISIS AND SMALL AND MEDIUM-SIZE COMPANIES

The worldwide economic crisis discussed in more detail in another section of this annual report could very well hit small and medium-size companies disproportionately hard. A credit crunch, falling local sales, and declining exports could ripple through the sector, leading to widespread job losses and even company closures. This section of the IIC's annual report summarizes the devastating effect that the current economic crisis could have on small and medium-size companies in Latin America and the Caribbean and discusses measures that could be taken to alleviate weaknesses and thus strengthen the sector over the longer term.

The crisis

Economic reports being published in late 2001 point to production declines, falling profits, abandoned acquisition plans, and a looming worldwide recession. If these indicators do not augur well for developed economies, they hint of severe adversity for the emerging economies and entrepreneurs of Latin America and the Caribbean. Such a bleak forecast poses a challenge to large, well-capitalized companies with relatively easy access to financing. It could spell disaster for those small and medium-size enterprises the IIC is mandated to foster.

The ensuing period of economic uncertainty and volatility and anticipated risk aversion will weigh heavily on the region's small and medium-size enterprises. With lower production and export levels usually come lower growth rates and higher unemployment. Whereas large companies may need assistance to maintain their status quo or to guard against too severe a decline, the small and medium-size companies will need assistance just to survive.

Small and medium-size companies are the first to be affected by economic downturns. Above all, they are at higher risk because they tend to concentrate on only a few productive or commercial activities. And their sometimes-tenuous access to funding on reasonable terms can make them especially fragile. Large corporations have broad product lines, so their economic activity and revenues are diversified. But small and medium-size companies usually specialize in a few goods or services, meaning that they have only two or three sources of revenue. So when a small or medium-size company runs into difficulties, it takes a major hit and must make decisions that have company-wide impact. Large companies have many options because diversification enables them to isolate a problem, strengthen successful areas, and offset losses on one product by generating more revenue on another. Obviously, these are options that are not open to small and medium-size companies.

Their natural concentration on a few products or services can make small and medium-size enterprises particularly vulnerable during hard times because a downturn in sales could mean losing their sources of funding. Uncertainty scares away investors and lenders; the long-term ones go first, and, if the situation does not improve quickly, the short-term ones also disappear. Among small and medium-size enterprises as a group, which are the most quickly affected by such circumstances? It depends on the sector in which they operate. In times of crisis, the consumption of unnecessary or luxury items drops immediately. So, any company that produces intermediate goods for such sectors or final goods of this nature will be hit hard. By the same token, companies that produce subsistence goods like food and beverages will be affected to a lesser degree. But when the crisis is worldwide, as is now the case, the demand for regional exports will fall. Small and medium-size companies that produce such commodities will sell less, have less revenue, be forced to cut costs, and may even have to lay off a large part of their workforce.

Falling commodity prices

The Latin American and Caribbean region is principally a producer, end user, and exporter of many commodities. Obviously, the impact of falling commodity prices will depend on whether the small and medium-size company in question is a producer or user. For producers, falling commodity prices will squeeze revenues and profits unless cost savings can be implemented quickly to offset declining sales. And in Latin America, where there is minimal margin for losses, not only do the small and medium-size entrepreneurs suffer; the thousands of workers and families that rely on these businesses are also affected.

The World Bank forecasts a negative long-run trend for commodity prices. Some specific examples are discussed below.

Coffee, one of the main export commodities of the region, has been suffering from two years of sliding prices, putting tremendous pressure on growers. Prices have fallen following an oversupply caused by better growing techniques and a quick rise in output by some countries. Coffee futures prices reached a thirty-year low in October 2001. With such low market prices, it is extremely difficult for growers to harvest the crops at cost effective prices. Particularly hit are small and medium-size producers that often have a high cost of production.

In 2001, coffee exports from the region were off almost 10 percent, partially due to crop problems and partially due to bad weather. The ripple effect of lower market prices and lower export levels is felt globally but is particularly acute in Latin America, which accounts for 60 percent of world coffee output and where coffee is an integral part of the economy and one of the region's strongest export earners.

It is here that small and medium-size companies face great challenges but also have many opportunities. Some producers are already meeting this challenge, producing and marketing coffee as a differentiated product rather than as simply a commodity. A good example is Café Soluble S.A., a Nicaraguan company for which the IIC approved a loan this year. Instead of exporting unprocessed coffee beans, Café Soluble exports high value added coffee products.

Sugar has seen its price decline during 2001, reaching eighteen-month lows after a period of oversupply. Recent climatic events that threaten to shrink supply may temporarily bolster this commodity's price.

Copper is another important export commodity; its futures prices are at thirteen-year lows. Weakening economies simply have reduced demand for wires and pipes and hence their primary raw material. And while copper prices have steadily declined over the past year, the subdued global demand continues to exacerbate the negative outlook for this commodity.

Oil, an important export commodity for the region, is hovering at two-year lows in the face of production surpluses and stagnant or falling demand due to warmer climatic conditions and slowing economic production. World demand for oil is growing at its slowest rate in almost two decades, and short-term forecasts are equally bleak. At the current levels of worldwide production and inventory, there is a risk that prices could plunge to late-1998 levels of around $10 a barrel.

Oil producers are usually large corporations, and small and medium-size companies might actually benefit from a drop in the price of oil as an input for their own production processes. However, falling oil revenues could trigger internal and external imbalances in oil producing countries, worsening the economic environment that disproportionately affects small and medium-size companies. This would be particularly true in the case of companies that are suppliers of goods and services to the oil industry.

Falling exports

The trade sensitive economies in the region will surely continue to suffer from a sharp slowdown in the global economy. Most affected will be those countries that rely on exports. The threat of a prolonged downturn of the U.S. economy is reducing demand for commodities and other exports so crucial to the Latin American and Caribbean economies. Falling exports and weaker demand from the region's consumers themselves may slow regional economic growth indiscriminately.

Declining tourism revenues

Global economic distress coupled with the unsettling events of late 2001 have had a damaging effect on tourism. According to the World Bank, 50 percent of planned Caribbean travel was cancelled during the last quarter of 2001. Hotel occupancy rates in the region dropped by as much as 30 percent. Surely the sector will rebound, but it will clearly take time. Latin American and Caribbean tourism entrepreneurs faced with falling revenues will have to identify and implement cost savings.

Scarce capital, credit, and foreign direct investment

Long-term investment by foreign companies in Latin America fell 21 percent during 2000 and decreased approximately 10 percent more during 2001 because of doubts about the region's economy and the global slowdown. The credit market remains largely open to top banks and corporations in most countries, but there is very little, if any, credit available for smaller enterprises.

Immediate and long-term action

Small and medium-size companies can be adaptable. Their overhead costs are usually lower than those of large companies because they have fewer layers of management. These companies can make advantageous use of local production factors and foster domestic entrepreneurship.

In the face of declining export volumes and falling commodity prices, Latin American and Caribbean entrepreneurs must act with celerity to save profitability. Their proven flexibility can enable them to implement cost savings techniques, redesign production processes, identify and market differentiated products, and broaden their customer base to offset declines. Entrepreneurs in the region can also leverage their proximity to customers and suppliers not enjoyed by foreign producers. For example, they can seek economies of scale through vertical integration. A good example is Invertec Pesquera, a Chilean company that received an IIC loan this year.

Loans and direct and indirect equity investments from the IIC can help finance measures of this nature. But over the longer term, small and medium-size companies need an environment that allows them to perform efficiently and effectively and makes them less vulnerable to economic crises. To this end, developmental institutions need to focus on strengthening markets in the region, as well as on other long-range goals. Some of these goals are

- help increase investment in education and healthcare in order to develop and protect local human capital and reduce poverty
- improve access to financing, especially equity, and financial intermediation services for small and medium-size companies
- work toward open, transparent regulatory environments
- develop efficient, regulated capital markets

These goals are part of the IIC's current business plan. They also represent key issues that must be addressed, not only to help the region's small and medium-size companies weather the current economic crisis but also—and in a way more importantly—to make the sector as a whole stronger in the face of new challenges yet to come.

HOW WELL AN ECONOMY AND ITS COMPONENTS (INVESTORS, LENDERS, BUSINESSES, AND THE PUBLIC) WEATHER AN ECONOMIC DOWNTURN HAS A LOT TO DO WITH THE UNDERLYING CLIMATE OF CONFIDENCE. All of these stakeholders are more likely to withdraw their support—thus exacerbating the crisis or delaying recovery—if they feel their interests are not protected. According to a study by Yale University professor Florencio López-de-Silanes commissioned by the IIC: "In the absence of a good legal environment, financiers are reluctant to surrender funds in exchange for securities, and hence the scope of capital markets is limited. Specifically…poor legal institutions result in high levels of ownership concentration, low availability of external equity financing, narrow equity markets, and small debt markets."

Some of the areas in which the region needs to improve in order to provide a more stable, attractive environment for investors are

- legal protection for investors—including minority shareholders—and creditor rights, which help ensure the availability of funding and the breadth and resilience of debt and equity markets
- enforcement of laws and regulations by courts and market regulators, including quality of accounting standards, corporate law, securities laws, and reorganization and bankruptcy laws

These areas fall into the general category of governance. According to Mr. López-de-Silanes, "A cross-country analysis makes it clear that improving corporate governance should be at the top of the policy agenda in Latin America."

Operations Approved in 2001

(In US$ millions except job creation)

Country	Investment Name	Sector	Loan	Equity	Total	Original Project Cost	Annual Value Added	Annual Foreign Exchange	Jobs Created
Argentina	PUBLICIDAD SARMIENTO	All Other Service Industries	6.5		6.5	13.0	9.3		13
Bolivia	MADERERA BOLIVIANA ETIENNE S.A.	Furniture Manufacturing	3.5		3.5	7.3	7.0	8.9	230
Brazil	FABRICA DE PAPEL SANTA T HEREZINHA S.A.	Paper Products	10.0		10.0	23.6	7.8		50
Brazil	BANCO SANTOS	Multi-Purpose Banking	10.0		10.0	10.0	8.0	2.6	150
Brazil	BRAZILIAN SECURITIES II	Capital Markets	10.0		10.0	25.0	9.4		15,360
Brazil	UNIVERSIDADE DO SUL DE SANTA CATARINA	Education	6.0		6.0	42.3	15.4		725
Brazil	BRAZILIAN MORTGAGES II	Capital Markets	5.0		5.0	15.0	9.4		15,360
Chile	INVERTEC PESQUERA II	Hatcheries and Aquaculture	4.0		4.0	25.2	37.4	43.4	1,115
Chile	BANCO DEL DESARROLLO EQUITY INVESTMENT	Multi-Purpose Banking		10.0	10.0	25.0	2.7		
Colombia	FALCON FARMS	Flower Production and Packing	5.0		5.0	12.0	12.5	11.5	700
Colombia	BIOFILM	Chemicals & Pharmaceuticals	7.0		7.0	41.0	27.9	26.7	40
Nicaragua	CAFE SOLUBLE	Agribusiness/ Agriculture	2.4		2.4	5.4	2.3	0.9	
Paraguay	EMPRENDIMIENTOS HOTELEROS, S.A.	Hotels & Restaurants; Leisure & Cultural Activities & Recreation	3.6		3.6	12.0	5.4	5.0	360
Peru	AMERICA LEASING	Leasing Companies	5.0		5.0		1.3	0.8	
Regional	CORI CAPITAL PARTNERS, LP PRIVATE EQUITY	Private Equity Fund		10.0	10.0	300.0	14.4	3.6	150
Regional	INTER-AMERICAN CORPORATION FOR INFRASTRUCTURE FINANCE	Nonregulated Financial Intermediary		10.0	10.0	50.0	220.0		3,300
Uruguay	CARRASCO MARRIOT HOTEL	Hotels & Restaurants; Leisure & Cultural Activities & Recreation	6.0		6.0	18.0	9.1	8.3	387
Uruguay	CAMINO A LAS SIERRAS, S.A.	Transportation	4.0		4.0	10.8	3.8		100
Venezuela	STANDARD SEAFOOD	Hatcheries and Aquaculture	10.0		10.0	37.2	26.6	40.3	828
		Total	**98.0**	**30.0**	**128.0**	**672.9**	**429.7**	**152.0**	**38,868**

Approvals, Commitments, and Disbursements*

(As of December 31, 2001—US$ millions)

Country	Number of projects	Gross Approvals Loan	Gross Approvals Equity	Gross Approvals Loan & Equity	Net Commitments Loan	Net Commitments Equity	Net Commitments Loan & Equity	Disbursements Loan	Disbursements Equity	Disbursements Loan & Equity
Argentina	27	143.7	11.0	154.7	111.8	8.8	120.6	111.0	8.8	119.8
Bahamas	2	6.0	0.0	6.0	1.0	0.0	1.0	1.0	0.0	1.0
Barbados	1	0.0	4.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Bolivia	12	52.6	1.9	54.5	42.8	1.3	44.1	42.8	1.3	44.1
Brazil	26	143.3	18.5	161.8	82.7	13.0	95.7	73.0	13.0	86.0
Chile	15	53.3	30.3	83.7	33.3	24.1	57.5	30.9	18.3	49.2
Colombia	14	63.2	12.9	76.0	33.0	9.5	42.5	30.0	9.5	39.5
Costa Rica	9	43.7	1.5	45.2	36.0	0.5	36.5	36.0	0.5	36.5
Dominican Republic	8	50.6	0.0	50.6	26.9	0.0	26.9	26.9	0.0	26.9
Ecuador	9	31.3	2.5	33.8	7.3	1.8	9.1	7.3	1.8	9.1
El Salvador	3	4.0	4.5	8.5	4.0	2.0	6.0	4.0	2.0	6.0
Guatemala	8	46.1	0.5	46.6	23.1	0.0	23.1	18.9	0.0	18.9
Guyana	2	3.3	0.0	3.3	0.8	0.0	0.8	0.8	0.0	0.8
Haiti	1	1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Honduras	10	50.9	1.0	51.9	33.6	0.0	33.6	24.1	0.0	24.1
Jamaica	6	19.3	1.5	20.8	5.6	0.0	5.6	5.6	0.0	5.6
Mexico	24	87.0	45.3	132.2	46.8	27.3	74.1	37.7	18.6	56.3
Nicaragua	8	28.8	1.4	30.2	24.8	0.9	25.7	19.3	0.9	20.2
Panama	4	17.0	0.0	17.0	17.0	0.0	17.0	17.0	0.0	17.0
Paraguay	6	25.6	0.0	25.6	18.3	0.0	18.3	18.3	0.0	18.3
Peru	17	90.5	10.8	101.3	43.3	4.5	47.8	43.3	4.5	47.8
Regional	26	58.2	144.0	202.2	15.0	105.0	120.0	5.3	64.2	69.5
Trinidad & Tobago	4	17.5	2.8	20.3	9.6	0.6	10.2	9.6	0.6	10.2
Uruguay	12	55.1	6.2	61.3	34.7	6.0	40.8	30.0	6.0	36.1
Venezuela	10	51.8	4.7	56.5	19.5	0.0	19.5	19.5	0.0	19.5
	264	**$1,143.6**	**$305.3**	**$1,449.0**	**$671.0**	**$205.4**	**$876.4**	**$612.2**	**$150.2**	**$762.4**

*Includes operations under agency lines.

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, 2001 and 2000, 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 our opinion.

PricewaterhouseCoopers LLP

Washington, D.C.
January 29, 2002

INTER-AMERICAN INVESTMENT CORPORATION

Balance Sheets

As of December 31, 2001 and 2000 (US$ thousands)

	2001	2000
ASSETS		
Cash	$ 3,576	$ 1,782
Marketable Securities	50,436	62,312
Loan and Equity Investments		
Loan Investments	279,755	269,644
Less Allowance for Losses	(30,421)	(24,409)
	249,334	245,235
Equity Investments	101,072	93,709
Less Allowance for Losses	(27,032)	(15,961)
	74,040	77,748
Total Investments	323,374	322,983
Receivables and Other Assets	4,062	7,105
Total Assets	$381,448	$394,182
LIABILITIES AND EQUITY		
Accounts Payable and Other Liabilities	$ 6,319	$ 3,381
Interest and Commitment Fees Payable	24	1,517
Borrowings	105,000	160,000
Total Liabilities	111,343	164,898
Capital		
Authorized: 70,370 shares (Par value $10,000)		
Subscribed Shares	681,910	662,040
Less Subscriptions Receivable	(401,885)	(438,165)
	280,025	223,875
Retained (Deficit) Earnings	(9,920)	5,409
Total Liabilities and Equity	$381,448	$394,182

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

Statements of Income and Retained Earnings

For the years ended December 31, 2001 and 2000 (US$ thousands)

	2001	2000
INCOME		
Marketable Securities	$ 2,873	$ 3,306
Loan Investments		
Interest	20,373	24,579
Commitment Fees	477	553
Front-end Fees	476	529
Other Loan Investment Income	766	473
	22,092	26,134
Equity Investments		
Gain on Sale of Equity Investments	2,081	505
Dividends	1,261	918
Other Equity Investment Income	80	121
	3,422	1,544
Advisory Service, Cofinancing, and Other Income	3,138	3,222
	31,525	34,206
EXPENSES		
Administrative	14,103	13,239
Provision for Loan and Equity Investment Losses	25,511	9,848
Unrealized Loss on Derivative	619	—
Borrowing	6,621	10,529
	46,854	33,616
NET (LOSS) INCOME	(15,329)	590
RETAINED EARNINGS AT BEGINNING OF YEAR	5,409	4,819
RETAINED (DEFICIT) EARNINGS AT END OF YEAR	$(9,920)	$ 5,409

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

Statements of Cash Flows

For the years ended December 31, 2001 and 2000 (US$ thousands)

	2001	2000
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Disbursements	$ (62,447)	$ (51,034)
Equity Disbursements	(15,333)	(13,516)
Loan Repayments	47,105	44,257
Sales of Equity Investments	2,542	3,459
Return of Capital from Equity Investments	2,330	326
Proceeds from Recovered Assets	416	1,869
Net cash used in investing activities	(25,387)	(14,639)
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of Borrowings	90,000	80,000
Repayment of Borrowings	(145,000)	(70,000)
Capital Subscriptions	56,150	20,620
Net cash provided by financing activities	1,150	30,620
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) income	(15,329)	590
Marketable Securities:		
Purchases	(2,562,370)	(1,790,957)
Sales, Maturities, and Repayment	2,574,352	1,761,300
	11,982	(29,657)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan and equity investment losses	25,511	9,848
Change in receivables and other assets	3,043	(368)
Change in accounts payable and other liabilities	2,938	1,126
Change in interest and commitment fees payable	(1,493)	697
Unrealized gain on mortgage-backed securities	(515)	—
Unrealized gain on marketable securities	(106)	(57)
	29,378	11,246
Net cash provided by (used in) operating activities	26,031	(17,821)
Net increase (decrease) in cash	1,794	(1,840)
Cash at beginning of year	1,782	3,622
Cash at end of year	$ 3,576	$ 1,782
Supplemental disclosure:		
Interest paid during the year	$ 7,977	$ 9,768

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 of America (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 on loan and equity investments and the estimated fair values of all derivative instruments. There are inherent risks and uncertainties related to the Corporation's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of the Corporation.

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. The allowance against losses for impaired loans represents management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate.

ALLOWANCE FOR LOSSES ON LOAN AND EQUITY INVESTMENTS

The Corporation follows the policy of periodically reviewing the risk rating of 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 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 F.

ACCOUNTING AND REPORTING DEVELOPMENTS

In September 2000, the FASB issued SFAS No. 140 *Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities—a replacement of SFAS No. 125.* SFAS No. 140 revises the standards for accounting for securitizations, other transfers of financial assets and collateral. SFAS No. 140 requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard are to be applied prospectively and became effective March 31, 2001. Adoption of the provisions of this standard has not had a significant impact on the Corporation.

RISK MANAGEMENT AND DERIVATIVE INSTRUMENTS

The Corporation enters into transactions involving various derivative instruments for risk management purposes. These derivatives are designed to minimize the Corporation's interest rate and foreign exchange risks in respect of certain investments. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, the Corporation marks these derivatives to market and records them as assets and/or liabilities at the balance sheet date, with unrealized gains and losses reflected in earnings.

Note B – Marketable Securities

Components of marketable securities as of December 31, 2001 and 2000 consist of (US$ thousands):

	2001	2000
Government and agency obligations	$ 20,679	$ 26,282
Asset-backed securities	22,673	22,959
Corporate securities	7,084	13,071
	$ 50,436	$ 62,312

Components of net income from marketable securities for the years ended December 31, 2001 and 2000 consist of (US$ thousands):

	2001	2000
Interest Income	$2,922	$3,242
Unrealized Gain	106	7
Realized (Loss) Gain	(155)	57
TOTAL	$2,873	$3,306

Note C – Loan and Equity Investments

The Corporation monitors the outstanding loan and equity portfolios for geographic concentration of credit risk. At December 31, 2001, countries with the largest aggregate credit exposure to the Corporation included Argentina, Brazil and Bolivia.

The distribution of the outstanding portfolio by country and by sectors as of December 31, 2001 and 2000 is as follows (US$ thousands):

	2001			2000		
	LOAN	EQUITY	TOTAL	LOAN	EQUITY	TOTAL
Regional	$ 3,170	$ 56,240	$ 59,410	$ 4,905	$52,609	$ 57,514
Argentina	55,121	2,000	57,121	66,248	4,999	71,247
Brazil	25,693	9,285	34,978	18,844	9,425	28,269
Bolivia	26,200	—	26,200	30,391	—	30,391
Mexico	12,529	13,100	25,629	2,013	12,120	14,133
Chile	12,375	12,974	25,349	11,190	6,000	17,190
Costa Rica	22,168	—	22,168	18,770	—	18,770
Dominican Republic	17,072	—	17,072	10,003	—	10,003
Peru	17,029	—	17,029	21,710	—	21,710
Honduras	15,932	—	15,932	14,603	—	14,603
Guatemala	15,146	—	15,146	13,240	—	13,240
Nicaragua	12,762	400	13,162	11,160	400	11,560
Paraguay	11,111	—	11,111	12,726	—	12,726
Venezuela	9,833	—	9,833	11,361	—	11,361
Panama	9,314	—	9,314	10,145	—	10,145
Colombia	4,000	3,429	7,429	363	4,169	4,532
Uruguay	5,172	1,046	6,218	3,850	1,389	5,239
Trinidad & Tobago	3,476	598	4,074	5,390	598	5,988
El Salvador	—	2,000	2,000	727	2,000	2,727
Ecuador	1,252	—	1,252	1,445	—	1,445
Bahamas	400	—	400	560	—	560
TOTAL	$279,755	$101,072	$380,827	$269,644	$93,709	$363,353

Notes to the Financial Statements

December 31, 2001 and 2000

	2001			2000		
	LOAN	EQUITY	TOTAL	LOAN	EQUITY	TOTAL
Financial Services	$145,048	$ 10,486	$155,534	$132,104	$ 6,052	$138,156
Venture Capital Funds	—	82,436	82,436	—	75,257	75,257
Manufacturing	39,811	2,000	41,811	43,653	2,000	45,653
Transportation, Storage & Communications	27,277	—	27,277	17,059	—	17,059
Utilities	18,471	—	18,471	21,111	—	21,111
Tourism	16,774	—	16,774	19,746	—	19,746
Agribusiness & Agriculture	13,634	2,000	15,634	15,144	2,000	17,144
Fisheries	3,637	4,150	7,787	4,718	5,400	10,118
Other Service Industries	6,500	—	6,500	—	—	—
Environment	3,927	—	3,927	4,179	—	4,179
Leasing Companies	3,170	—	3,170	4,905	—	4,905
Health Services	880	—	880	4,353	—	4,353
Mining & Oil	626	—	626	1,054	3,000	4,054
Livestock & Poultry	—	—	—	1,518	—	1,518
Agency Lines	—	—	—	100	—	100
TOTAL	$279,755	$101,072	$380,827	$269,644	$93,709	$363,353

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) as of December 31, 2001 and 2000 are summarized below (US$ thousands):

	2001	2000
Investments Approved but not Committed		
Loan	$146,875	$111,100
Equity	15,000	26,500
TOTAL	$161,875	$137,600
Investments Committed but not Disbursed		
Loan	$59,209	$106,116
Equity	59,871	33,691
TOTAL	$119,080	$139,807

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, 2001, the one, three and six-month average LIBOR rates were 3.88%, 3.78% and 3.73%, respectively (6.56%, 6.40% and 6.21%, respectively, at December 31, 2000).

The maturity structure of the Corporation's loan investments for the years ended December 31, 2001 and 2000 is summarized below (US$ thousands):

	2001		2000	
	PRINCIPAL OUTSTANDING	AVERAGE SPREAD OVER LIBOR	PRINCIPAL OUTSTANDING	AVERAGE SPREAD OVER LIBOR
Due in one year or less	$ 61,489	3.70%	$ 69,336	3.51%
Due after one year through five years	176,900	3.50%	150,590	3.38%
Due after five years through ten years	41,366	4.02%	49,718	3.37%
TOTAL	$279,755		$269,644	

Loans on which the accrual of interest has been discontinued totaled $83,246,000 at December 31, 2001 ($40,516,000-December 31, 2000). Interest income not recognized on nonaccruing loans during the year ended December 31, 2001 totaled $2,634,000 ($3,782,000-year ended December 31, 2000). Interest collected on loans in nonaccrual status, related to current and prior years, during the year ended December 31, 2001 was $47,000 ($959,000-year ended December 31, 2000).

The Corporation's investment in impaired loans at December 31, 2001, was $22,128,000 ($8,525,000-December 31, 2000). The average recorded investment in impaired loans during the year ended December 31, 2001, was $15,327,000 ($14,432,000–December 31, 2000).

Changes in the allowance for loan and equity losses for the years ended December 31, 2001 and 2000 are summarized below (US$ thousands):

	2001			2000		
	LOANS	EQUITY	TOTAL	LOANS	EQUITY	TOTAL
Balance at beginning of year	$ 24,409	$ 15,961	$ 40,370	$ 24,567	$ 10,186	$ 34,753
Investments written off	(5,746)	(3,098)	(8,844)	(5,106)	(994)	(6,100)
Recoveries	416	—	416	1,869	—	1,869
Provision for losses	11,342	14,169	25,511	3,079	6,769	9,848
Balance at end of year	$ 30,421	$ 27,032	$ 57,453	$ 24,409	$ 15,961	$ 40,370

Of the increase in provisions during 2001 compared to 2000, a substantial amount is attributable to the Corporation's loan and equity investments in Argentina.

In 2000 the Corporation made an investment in a minimum lease payments receivable which is included in loan investments. As of December 31, 2001 the net present value of this investment totaled $3,210,000 ($4,936,000-December 31, 2000), including gross payments receivable of $3,555,000 ($5,656,000-December 31, 2000) with unearned interest of $345,000 ($720,000-December 31, 2000). The Corporation recognized $375,000 in interest income associated with these leases during the year ended December 31, 2001 ($110,000-year ended December 31, 2000). Lease payments to be received over the next five years are as follows (US$ thousands):

	2002	2003	2004	2005	2006
Principal repayments	$1,620	$1,019	$431	$95	$5
Interest income earned	225	91	25	3	—
Minimum lease payments receivable	$1,845	$1,110	$456	$98	$5

In 2001 the Corporation made an investment in mortgage-backed securities which is included in loan investments. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* the Corporation has classified these mortgage-backed securities as trading securities and carries them at fair value of $4,338,000 at year end. At December 31, 2001, the Corporation has recorded an unrealized gain of $515,000 related to this investment which is reflected in other loan investment income. The Corporation also entered into a derivative financial instrument related to this mortgage-backed securities investment which is designed to minimize the variability of the interest and principal repayments due to interest and foreign exchange risk. At December 31, 2001, the Corporation has recorded a fair value for the derivative of $619,000 which is reflected in accounts payable and other liabilities and which also represents the unrealized loss associated with the derivative.

Note D – Receivables and Other Assets

Receivables and other assets as of December 31, 2001 and 2000 are summarized below (US$ thousands):

	2001	2000
Accrued Income on Marketable Securities	$ 384	$ 360
Accrued Income on Loan Investments	2,145	4,647
Accrued Dividends on Equity Investment	174	221
Receivable on Equity Sales, net	—	483
Recovered Assets	620	620
Other Postretirement Benefit Prepaid Asset	112	249
Other	272	112
Fixed Assets:		
Office Equipment and Leasehold Improvements, at cost	1,234	1,208
Computer Hardware, Software and Systems Development, at cost	2,384	2,287
Less: Accumulated Depreciation and Amortization	(3,263)	(3,082)
Fixed Assets, net	355	413
Total Receivables and Other Assets	$ 4,062	$ 7,105

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, 2001, the outstanding balance on this receivable was paid in full, and the related valuation allowance was released ($568,000 and $85,000, respectively-December 31, 2000).

Note E - Accounts Payable and Other Liabilities

Accounts payable and other liabilities as of December 31, 2001 and 2000 are summarized below (US$ thousands):

	2001	2000
Accounts Payable	$ 564	$ 470
Due to the IDB	77	49
Salaries and Benefits Payable	1,575	1,320
Deferred Revenue	333	23
Capital Subscription Residual Payments	1,317	133
Installment Payments on Equity Dispositions	1,383	983
Derivative Liability	619	—
Other Liabilities	451	403
Total accounts payable and other libilities	$6,319	$3,381

The Corporation enters into agreements with equity investment sponsors to exit the Corporation's positions in equity investments. These agreements involve installment payments made to the Corporation whereupon at the end of the installment payments the Corporation's position is released to the equity investment sponsor. Installment payments reflected in accounts payable and other liabilities total $1,383,000 at December 31, 2001 ($983,000-December 31, 2000).

Note F - Borrowings

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

Credit line agreements and the related borrowings under these agreements at December 31, 2001 and December 31, 2000 are as follows (US$ thousands):

	2001		2000	
CREDIT LINE AGREEMENTS	AVAILABLE	OUTSTANDING	AVAILABLE	OUTSTANDING
Caja, expired July 2001	$ —	$ —	$ 50,000	$ 40,000
Caja, expiring March 2003	50,000	50,000	50,000	50,000
Caja, expiring March 2006	100,000	—	100,000	70,000
Caja, expiring December 2002	50,000	—	50,000	—
IBJ, expiring June 2006	100,000	55,000	—	—
		$105,000		$160,000

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, 2001 was 4.71% (6.73%-year ended December 31, 2000). 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, 2001 totaled $53,000 ($26,000-year ended December 31, 2000).

In 2001 the Corporation renewed a loan agreement with the Inter-American Development Bank that allows the Corporation to borrow up to $300 million until November 2005. No funds were drawn under this loan agreement during 2001 or 2000.

Note G – Capital

The Corporation's authorized share capital was increased to $703.7 million through a $500 million capital increase resolution approved in 1999. The resolution allocated $500 million for subscriptions by member countries during the subscription period. On March 22, 2000, the minimum number of subscriptions required to make the capital increase resolution effective was received. Members have agreed to pay their subscriptions in eight installments, the last of which is payable on October 31, 2007.

The following table lists the capital stock subscribed and subscriptions receivable for each member country at December 31, 2001 (US$ thousands):

	Capital Stock Subscribed		Subscriptions Receivable from Members
	Shares	Amount	
Argentina	7,767	$ 77,670	$ 54,400
Austria	345	3,450	1,840
Bahamas	68	680	—
Barbados	101	1,010	540
Belize	101	1,010	610
Bolivia	624	6,240	3,280
Brazil	7,767	77,670	47,310
Chile	2,003	20,030	9,850
Colombia	2,003	20,030	11,490
Costa Rica	94	940	—
Denmark	1,071	10,710	5,710
Dominican Republic	435	4,350	2,360
Ecuador	420	4,200	2,940
El Salvador	94	940	—
France	2,162	21,620	11,520
Germany	1,334	13,340	5,310
Guatemala	420	4,200	2,210
Guyana	124	1,240	660
Haiti	94	940	—
Honduras	314	3,140	2,200
Israel	173	1,730	930
Italy	2,162	21,620	15,360
Jamaica	126	1,260	—
Japan	2,393	23,930	13,260
Mexico	5,000	50,000	30,430
Netherlands	1,071	10,710	5,710
Nicaragua	314	3,140	2,200
Panama	314	3,140	1,650
Paraguay	325	3,250	2,310
Peru	2,003	20,030	13,260
Spain	2,393	23,930	13,260
Suriname	30	300	225
Sweden	393	3,930	2,950
Switzerland	1,071	10,710	5,710
Trinidad and Tobago	314	3,140	2,200
United States	17,600	176,000	102,580
Uruguay	857	8,570	4,640
Venezuela	4,311	43,110	22,980
TOTAL 2001	68,191	$681,910	$401,885
TOTAL 2000	66,204	$662,040	$438,165

Note H – 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, 2001, the Corporation called and disbursed $24,455,000 ($19,843,000-year ended December 31, 2000) of Participants' funds. The undisbursed participants' funds commitments were $7,872,000 at December 31, 2001 ($27,717,000-at December 31, 2000).

Note I – 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 during the year ended December 31, 2001 and December 31, 2000 (US$ thousands):

	2001	2000
Office Space	$1,099	$1,097
Support Services	536	400
TOTAL	$1,635	$1,497

Accounts payable due to the IDB were $77,000 at December 31, 2001 ($49,000-at December 31, 2000.

In 2001 and 2000, no amounts were outstanding to the IDB under an existing loan agreement. See Note F.

The Corporation has an advisory services agreement with the IDB's Multilateral Investment Fund (MIF). Fees of $475,000 were received for the year ended December 31, 2001 ($400,000 for the year ended December 31, 2000).

Note J – Retirement Plan

The IDB sponsors a defined benefit 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 $12,000 for the year ended December 31, 2001 ($9,000-year ended December 31, 2000).

Note K – 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 $220,000 to the Plan for the year ended December 31, 2001 ($695,000-year ended December 31, 2000). 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 and the funded status as of December 31, 2001 and 2002 (US$ thousands):

	2001	2000
Reconciliation of benefit obligation		
Obligation at January 1	$8,141	$7,386
Service cost	727	674
Interest cost	365	462
Actuarial gain	(1,830)	(381)
Obligation at December 31	7,403	8,141
Reconciliation of fair value of Plan assets		
Fair value of Plan assets at January 1	7,974	7,439
Actual return on Plan assets	(481)	(160)
Employer contributions	220	695
Fair value of Plan assets at December 31	7,713	7,974
Funded status		
Funded status at December 31	310	(167)
Unrecognized transition obligation	2,272	2,445
Unrecognized gain	(2,470)	(2,029)
Other Postretirement Benefit Prepaid Asset	$ 112	$ 249

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 10.5 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:

	2001	2000
Discount rate	5.25%	5.75%
Expected return on Plan assets	6.00%	6.50%

The accumulated postretirement benefit obligation was determined using health care cost trend rates of 10.8% to 12.3% for those participants assumed to retire in the United States of America. The rate was assumed to decrease gradually to 5.0% in 2013 and thereafter. For those participants assumed to retire outside the United States of America, a 9.5% increase was assumed.

The net periodic benefit cost consists of the following components as of December 31, 2001 and 2000 (US$ thousands):

	2001	2000
Service cost	$ 727	$ 674
Interest cost	365	462
Amortization of unrecognized transition obligation and gain	(151)	24
Less: Expected return on Plan assets	(584)	(532)
	$ 357	$ 628

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	$ 222	$ (180)
Effect on postretirement benefit obligation	1,297	(1,052)

Governors and Alternate Governors

Country	Governor	Alternate Governor
Argentina	Jorge Remes Lenicov	Roque Maccarone
Austria	Karl-Heinz Grasser	Thomas Wieser
Bahamas	Sir William C. Allen	Ruth Millar
Barbados	Reginald R. Farley, M.P.	Grantley Smith
Belize	Ralph Fonseca	Keith Arnold
Bolivia	Jacques Trigo Loubiere	Bernardo Requena Blanco
Brazil	Martus Antônio Rodriguez Tavares	Dante Coelho de Lima
Chile	Nicolás Eyzaguirre	María Eugenia Wagner Brizzi
Colombia	Juan Manuel Santos	Juan Carlos Echeverri
Costa Rica	Alberto Dent	Eduardo Lizano Fait
Denmark	Carsten Staur	Ove Ullerup
Dominican Republic	Francisco M. Guerrero Prats.-R.	Luis Manuel Piantini Munnigh
Ecuador	Carlos Julio Emanuel	Jorge Morán Centeno
El Salvador	Juan José Daboub	Rafael Barraza
France	Laurent Fabius	Jean-Pierre Jouyet
Germany	Ms. Uschi Eid	Rolf Wenzel
Guatemala	Eduardo H. Weymann Fuentes	Lizardo Sosa
Guyana	Bharrat Jagdeo	Saismarine Kowlessar
Haiti	Marc Bazin	Faubert Gustave
Honduras	Gabriela Núñez de Reyes	Victoria Asfura de Díaz
Israel	David Klein	Dan Catarivas
Italy	Giulio Tremonti	Vincenzo Desario
Jamaica	Omar Davies, MP	Shirley Tyndall
Japan	Masajuro Shiokawa	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 Antonio Quirós B.
Paraguay	Francisco Oviedo	James Spalding
Peru	Pedro Pablo Kuczynski G.	Kurt Burneo Farfán
Spain	Rodrigo de Rato y Figaredo	Juan Costa Climent
Suriname	Humphrey Stanley Hildenberg	Stanley Ramsaran
Sweden	Ms. Gun Britt Andersson	Ann Uustalu
Switzerland	Oscar Knapp	Adrian Schläpfer
Trinidad and Tobago	Gerald Yetming	Victoria Mendez-Charles
United States	Paul H. O'Neill	Alan P. Larson
Uruguay	Alberto Bensión	Ariel Davrieux
Venezuela	Nelson Merentes	Jorge Giordani

Information as of December 2001

Executive Directors and Alternate Executive Directors

Name	Country
Juan E. Notaro Jorge Crespo-Velasco	Bolivia, Paraguay, and Uruguay
Roderick G. Rainford Luis Alberto Rodriguez	Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago
José A. Fourquet	United States of America
Jaime Pinto Tabini Germán Quintana	Chile and Peru
Michaela Zintl Paolo Cappellacci	Austria, Germany, Italy, and The Netherlands
Agustín García-López Héctor Santos	Dominican Republic and Mexico
José Carlos Quirce José Carlos Castañeda	Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
José Alejandro Rojas Eduardo Linares	Panama and Venezuela
Daniel Oliveira Frederico Álvares	Brazil and Suriname
Michel Planque Flemming Nichols	Denmark, France, Sweden, and Switzerland
Álvaro Rengifo Yoshihisa Ueda	Israel, Japan, and Spain
María Cecilia Otoya César Coronel	Colombia and Ecuador
Ricardo R. Carciofi Martín Bès	Argentina and Haiti

Information for the month of December 2001

Management and Senior Staff

General Manager	Jacques Rogozinski
Corporate Finance Division Chief	Steven Reed
Financial Services Division Chief	Jorge Zelada
Finance, Risk Management and Administration Division Chief	Jorge Roldán
General Counsel, Legal Division	Raul Herrera
Executive Senior Counsel, Legal Division	Sarah Fandell
Chief Engineer	Philip James
Chief Credit Officer	Mario Mahler
Senior Special Operations Coordinator	Jorge Pacheco
Support Staff	
Chief Accountant	Shane L Bateman
Human Resources	Susana Salazar
Senior Portfolio Officer	Rigoberto Ordóñez
Treasurer	Barbara D. McGowan
Secretariat	
Secretary	Carlos Ferdinand
Deputy Secretary	Armando Chuecos

As of December 2001