

Inter-American Development Bank Group

The Inter-American Investment Corporation (IIC)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$0	\$0	\$1,741,515	\$1,741,515

The Inter-American Investment Corporation (IIC) was established in 1984 to promote private small and medium-size enterprises (SMEs) in Latin American and the Caribbean. Through a combination of direct loans to, and equity investments in, individual companies, lending through private local banks, and participation in regional equity funds, the IIC helps SMEs obtain affordable capital to start up, expand, or modernize their operations.

For FY2006 the Administration is requesting \$1.7 million to clear a portion of U.S. arrears to the IIC.

Key Facts

- The IIC invests in private sector projects, lends without a sovereign guarantee, and assumes standard commercial risks.
- Since its inception the IIC has approved 350 projects, totaling \$1.914 billion. Of these, 146 projects, representing \$678 million, remain active. To date, the IIC has disbursed over \$193 million for equity investments (directly to SMEs or financial institutions and also to SMEs through private equity funds).
- In 2004, the IIC approved 31 projects totaling \$164 million. In 2004, co-financing approvals resulted in \$125 million in additional lending from private commercial banks to SMEs.
- U.S. participation in the IIC's first general capital increase was conditioned on the IIC adopting changes in various key policy areas including core labor standards, the environment, an inspection panel function, public disclosure, and evaluation. In each of these areas, the IIC has adopted policies that put it at the forefront among IFIs that support the private sector.
- The IIC has committed that it will focus its resources in those sectors and regions where they are likely to have the greatest catalytic and demonstrative impact. Over half of the IIC's loans and investments have been for projects in the poorest countries in the Western Hemisphere. In designing programs to assist SMEs, the IIC takes into account other sources of funding (i.e., multilateral, bilateral, and local public and private sources) in order to maximize the efficient use of these funds.

Note: Internet website: www.iadb.org/iic; IDB Fiscal Year: January 1 – December 31

- The IIC and the Multilateral Investment Fund strengthened ties to support SMEs signing an MOU in March 2004 to improve support for SMEs through the financial sector.

Supporting U.S. Objectives

Results Measurement

IIC has implemented a project evaluation system based on guidelines developed by the Evaluation Cooperation Group of the MDBs.

- IIC's evaluation function includes project self-evaluation by IIC's investment officers and independent evaluation by the IDB's Office of Evaluation and Oversight (OVE).
- In 2003, OVE presented to the IIC Board of Directors evaluation results for 21 projects. The report noted that the IIC had made progress in implementing the self-evaluation system based on best-practice methods proposed by a working group of all MDBs, but noted the need for IIC to increase feedback of "lessons learned" from evaluations into new project design.

Increasing Productivity Gains

Small and medium-size enterprises can generate significant employment, contribute substantially to GDP and enhance productivity and economic competitiveness. IIC's investments in SMEs deepen capital markets in the region as the companies become listed on local exchanges and lending to local private banks helps strengthen risk assessment and portfolio management capacity. For example:

- Cablemas S.A. de C.V.: IIC approved a bond issue guarantee for \$8 million for this increasingly important provider of Internet and voice and data transmission services in Mexico. By participating in this transaction, the IIC will not only help close the digital divide, but will improve the risk profile of a bond issue by Cablemás giving it access to funding from institutional investors and pension funds and help deepen the securities market in Mexico. This partial loan guarantee will boost financial intermediation and foster savings in the local financial market and open the door to long-term financing in local currency for non-exporters.

Good Governance and Anti-Corruption Measures

IIC places great importance on strong fiduciary controls in its financing operations.

- Each financing operation undergoes rigorous due diligence, assessing the beneficiary's financial reporting, controls and management capabilities, including critical risks such as corrupt practices.

- Furthermore, the IIC reviews in depth each host country's regulations pertaining to money laundering and assesses each financial institution's compliance with the regulations and the adequacy of its controls with respect to deposit taking and management activities.
- To enhance implementation efficiencies and consistency of action within the IDB Group, the Board approved the IIC's participation in the IDB's oversight committee on fraud and corruption when allegations of fraud or corruption are considered.

Supporting the Environment

The IIC requires that each financial intermediary or investment fund that on-lends or invests IIC funds undertake or certify an environmental review of each sub-borrower's or investor beneficiary's environmental performance. It also requires all financial intermediaries with which the IIC works to attend environmental workshops to learn how to integrate environmental management practices into their own operations. The workshops focus on the banks' responsibility in monitoring the environmental aspects of projects they finance with IIC funds.

The IIC emphasizes investment in small- and medium-sized companies that can be models for the sustainable use of natural resources. For example,

- Hidroabanico S.A.: IIC approved a \$7 million loan to this Ecuadorian company to build a mini hydroelectric power plant. Located near the town of Macas in the Amazon River Basin, the plant will create jobs in an economically depressed area and generate 14.88 megawatts of clean energy to replace polluting energy. This run-of-the-river plant will harness the flow of the Abanico River, so it will not be necessary to build a reservoir. Once the plant comes on line, it will be used as an alternative to more polluting energy sources and will help modernize power sector infrastructure and increase Ecuador's power generation. As a result, it will reduce overall greenhouse gas emissions in Ecuador.