

Inter-American Development Bank Group

The Inter-American Investment Corporation (IIC)

FY2002 Appropriation	FY2003 Scheduled Request	FY2003 Arrears Request	FY2001 Total Request
\$18.0M	\$25.0M	\$5.4M	\$30.4M

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 these enterprises obtain affordable capital to start up, expand, or modernize their operations. It is expected that projects approved in 2001 will lead to the creation of 38,918 new jobs, generate annual exports worth \$128.5 million, and contribute \$429.7 million per year to the region's gross domestic product.

For FY2003 the Administration is requesting a total of \$30.4 of which \$25.0 million is for the fourth of five payments under the U.S. commitment to IIC's General Capital Increase (GCI). The total U.S. commitment is \$125 million; the total value of the GCI is \$500 million.

An additional \$5.4 million is requested to clear one-third of U.S. arrears in the IIC.

Key Facts

- The IIC invests in private sector projects, lends without a sovereign guarantee, and assumes standard commercial risks.
- IIC investments through small and medium-size enterprises can generate significant employment, contribute substantially to GDP and enhance economic competitiveness. IIC's investments in SMEs serve to deepen capital markets in the region as the companies become listed on local exchanges, and lending operations to local private banks help strengthen risk assessment and portfolio management capacity.
- Since its inception the IIC has approved 264 projects, totaling \$1.45 billion. The IIC has disbursed over \$305 million in equity investments to assist SMEs.
- In 2001, the IIC financed 19 projects totaling \$128 million. Seventeen projects were in specific countries, and two were in regional equity funds. Co-financing resulted in \$55 million in additional lending from private commercial banks to SMEs.

- In 2001, U.S. contributions to the IIC totaled \$18 million
- U.S. participation in the IIC's first GCI 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.
- IIC has committed to 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 resources.
- IIC will strengthen its links with the IDB's country programs and with the Multilateral Investment Fund, so that the lessons learned in IIC operations can become an integral part of the Bank's activities elsewhere.

Environment

In June 2001, representatives from 27 financial institutions from 10 regional countries attended an IIC-sponsored environmental management workshop, co-hosted by the IFC and Andean Development Corporation. All financial intermediaries with which the IIC operates must attend these workshops to learn how to integrate environmental management practices into their own operations. The workshops focus on the banks' responsibility in monitoring environmental aspects of projects they finance with IIC funds. In addition, 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.

As a multilateral institution mandated to further sustainable development in Latin America and the Caribbean, the IIC targets for investment small- and medium-sized companies that can be models for the sustainable use of natural resources. Examples include:

- Fabrica de Papel Santa Therezinha (Santher): IIC approved a \$10 million loan and a \$15 million syndicated loan to this privately-owned Brazilian producer of tissue and special light paper products. The firm uses recyclable products in its manufacturing process and has water treatment facilities that return water to the local river in a cleaner condition than when it was drawn. It also uses the sludge as raw material for making bricks, eliminating the need for disposal through landfills or incineration.
- Standard Seafood de Venezuela, C. A.: IIC approved a \$10 million loan to this shrimp farming company that has developed a methodology for growing environmentally-adapted shrimp varieties in lower saline water. This method allows the company to operate shrimp farms in an environmentally sustainable manner. The IIC loan will allow the company to expand in this nontraditional export sector.

- Café Soluble S. A.: IIC approved a \$2.4 million loan to this instant coffee producer and distributor and marketer of international brand consumer products. The IIC loan supports modernizing the coffee processing plant, including improving environmental conditions and installing a wastewater treatment plant.

Governance

IIC submitted a framework paper on governance to its Board in 2001 to serve as a basis for making policy decisions on the role of governance in improving company management and capital valuation. IIC believes it can further corporate and national governance in 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 issues of fraud and corruption. It also understands the importance of ensuring its own good governance by safeguarding the transparency of its operations and accountability for its own financial and developmental performance.

Fraud and Corruption

IIC submitted to the Board in 2001 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. IIC places great importance on the advancement of transparency in its operations through sound financial management practices, and is committed to ensuring the integrity of its operations by its management and staff internally and also externally in dealings with client companies.