

**ANNUAL MEETING OF THE BOARDS OF GOVERNORS****FORTALEZA, BRAZIL**

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REPORT BY THE GENERAL MANAGER  
OF THE INTER-AMERICAN INVESTMENT CORPORATION  
TO THE SEVENTEENTH ANNUAL MEETING OF THE BOARD OF GOVERNORS

*Jacques Rogozinski*

1. The Annual Meeting of the Board of Governors is particularly important to us because it provides an ideal forum for informing our member countries about the progress our institution has made and the challenges it faces. The Inter-American Investment Corporation is honored to be holding this meeting in Brazil, which stands out among the countries of Latin America and the Caribbean because of its dynamic economy, its geography, its boundless natural resources, and its cultural contribution to the entire region. Today, Brazil is also opening its doors to enable a discussion on how to spur the development of small and medium-size companies in this important region of the world. We would like to thank the country for its hospitality and its authorities for hosting our annual meeting.
2. At its outset, the twenty-first century has brought the world—and especially Latin America and the Caribbean—many problems and dangers. But it also holds the promise of change and challenge. Last year, we came together to discuss various scenarios that would enable, spur, or hold back the development of the small and medium-size enterprise sector.
3. Unfortunately, of the three scenarios set forth in last year's report, the one we called the "worst case scenario" is the one that has come to pass. The economic and political climate is unfavorable for small and medium-size companies, which have suffered a significant setback due to the combined effect of a shrinking global market and the resulting serious recession in the region's countries.
4. Economic activity in Latin America and the Caribbean has been flagging since mid-2000. The international situation does not favor the region: the terms of trade have worsened, global commerce has slowed, and the flow of capital to the region has fallen off sharply. Our region saw a decrease in the price of raw materials and oil, as well as a drop in employment—all in a climate of financial uncertainty and growing insecurity.

5. It is in this climate that we report on our institution's results for the year and confirm our commitment to our developmental goals of creating jobs, protecting the environment, and working towards a region with less inequality.

### *Operating Results*

6. The IIC's effectiveness in 2001 was uneven: there has been progress as to the means available to us, but our report on the end results is not what we would have hoped. The IIC approved nineteen operations in ten countries for a total of US\$128 million—23% in equity investments and 77% in loans. These operations will make it possible to channel funds to more than 100 small and medium-size enterprises in the region by means of our financial intermediation and equity fund programs. Management is stepping up its efforts to increase its project pipeline, which is one of its priorities.

7. Two of the equity investments were in developmental investment funds, national and regional, with a total capitalization of US\$350 million. As for the loans, three will be cofinanced and will use US\$25 million in IIC funding to mobilize a total of US\$60 million in financing from banks and other sources.

8. The dollar amount of approvals grew 9.7% between 2000 and 2001. Commitments increased 6.9% in 2001, reaching an aggregate total of US\$876.4 million. And one more year of operations brought to 2,590 the number of companies financed—a 6% increase since year-end 2000. Disbursements during 2001 totaled US\$762 million, which is 11.4% more than in 2000.

9. Total approvals since the IIC began operations in 1989 stand at US\$1.449 billion. These figures and achievements make the Corporation a significant feature on the developmental funding map of Latin America and the Caribbean. In its twelve years of operations, the IIC has approved a total of 266 direct projects. Throughout 2001 we continued to work on laying institutional groundwork and improving the Corporation's methodologies and tools.

### *Financial Results*

10. Our financial results for 2001 were not satisfactory. Total income was US\$31,525,000. As for expenses, we spent US\$14 million of the US\$16 million administrative budget—achieving a 12% saving.

11. However, there was a significant difference between the US\$9 million in provisioning expected for 2001 and the US\$25 million in actual provisions for the year. The US\$16 million difference is due chiefly to the effect of recent events in Argentina. The considerable increase in provisions is reflected in a US\$15,329,000 loss for the year.

12. It should be noted that it is best to follow conservative accounting standards in such times of high economic and financial uncertainty.

13. The IIC is responding with precaution and transparency to the inherent risk of its target market. So, in order to strengthen the risk analysis process, a Credit Unit and a Credit Committee were created in 2001 as part of the effort to improve portfolio quality by means of

stricter and more independent evaluation of the credit risk of each and every potential project company.

14. We are working to improve our provisioning process by fine-tuning the supervision function and carefully identifying and quantifying the value of our investment portfolio.

15. Our efforts to recover loans to and investments in problem projects continue to yield positive results. The Special Operations Unit constantly exchanges information with the operations areas, allowing rapid and appropriate response.

#### *Achievements in 2001*

16. IIC membership grew in 2000 with the admission of five more countries: Belgium, Finland, Norway, Portugal, and Sweden. We are pleased to tell you that as of today, Sweden and Norway have completed all of the legal requirements for entry. Belgium, Finland, and Portugal are at varying stages in the process. We are honored to welcome these new member countries.

17. Last year we had the pleasure of informing you that the rating agency Standard and Poor's gave us an AA rating. This year, we had the additional satisfaction of receiving an Aa2 rating from Moody's, recognizing our ability to honor our obligations.

18. The results of the FINPYME methodology pilot program in Bolivia and Chile have opened the door to implementation in other areas of the region. FINPYME could thus become a permanent IIC program.

19. As for the environment, we remain committed to our mission of improving and supporting environmental protection as an integral part of development. In this regard, we continue to require that our projects provide for this significant component. This year, we held an environmental protection workshop for our clients, cosponsored by the Andean Development Corporation and the International Finance Corporation.

20. Our effort to reach a greater number of small and medium-size companies is reflected in the change in the IIC's strategy regarding its regional offices. This year the three regional offices, which had been focusing on project supervision, targeted business development and new project identification. This strategy was reinforced by reassigning positions from Washington to the field offices.

#### *Development of New Initiatives*

21. We continue to bring new sectors into the IIC's portfolio. In addition to providing support in the manufacturing, service, equity fund, and agency line sectors, among others, this year the IIC financed projects in education and housing. Both have a marked impact on job creation and are strategic areas of activity for social progress at the local and regional level alike. We will therefore continue to look for projects in these sectors.

22. The IIC financed its first project in the education sector, with a loan to the Universidade do Sul de Santa Catarina in Brazil. This university has low, competitive tuition rates, processes government aid for qualifying students, and has created its own student loan

program. As for housing, the IIC approved the Brazilian Mortgages and Brazilian Securities project, which is helping introduce mortgage securitization in Brazil's secondary market.

23. We are also working in the area of infrastructure. In Uruguay, we approved our first toll road project. The *Ruta 8* project is bringing us opportunities to work with small and medium-size, infrastructure-related companies where we have a clear catalytic role to play.

#### *Cooperation among Institutions*

24. The IIC's relationship with the rest of the IDB Group continues to grow stronger. This year as well, we participated in country strategy and programming activities. The IIC participates in the Bank's Private Sector Coordination Committee, and our Senior Credit Officer advises the Office of the IDB's Executive Vice President regarding private sector projects and the Bank's loan committee for private sector operations. We have also cooperated on IDB regional strategies.

25. We continue to look for and work toward greater integration and better communication with the IDB country offices so as to achieve our goals more consistently and draw on field office staff experience. We also continue to work closely with the MIF, evaluating and advising on equity investment related operations. In 2001, we evaluated ten operations for the MIF, which were both domestic and regional in scope.

#### *Spurring Latin American Competitiveness*

26. We must stress the need to create a climate conducive to growth and competitiveness, grounded in a sustainable, ethical Latin American small and medium-size enterprise sector that can benefit from ready access to new technologies and powerful mass and virtual communication media.

27. We are working to identify and analyze strategic areas that could help the countries in the region become more competitive, because we are firmly convinced that nations are more competitive when they can support small and medium-size companies by mobilizing creative, enterprising investors.

#### *Promoting Small and Medium-Size Enterprise*

28. We know that in order to flourish, small and medium-size companies need policy, legal, and good governance environments conducive to development that is sustainable and equitable and strengthens institutions. Governance and public policy are thus key items on the Latin American and the Caribbean agenda for promoting small and medium-size enterprises by fostering a fertile business climate, savoir-faire and creativity, timely restructuring during economic downturns, and transparent, trustworthy corporate governance.

29. As an institution we have made progress in areas that are key to the growth of our organization: additionality, governance, and transparency vis-à-vis fraud and corruption.

30. Developmental additionality has systematically been made a part of our projects, in response to the Board of Directors' concerns regarding our developmental added value. Governance is still one of our main concerns. We know that the IDB Group's role and presence in the region can be essential in fostering more transparent, responsible management

practices among small and medium-size enterprises. In 2001 we submitted to the Board of Directors an initial report on governance and legal frameworks in Latin America. The second and final part of the study will be ready by the second half of 2002, and its findings will enable us to determine the areas in which the IDB Group as a whole can support our effort to extend good governance among our clients.

31. Our commitment to transparency in the fight against fraud and corruption remains strong. In 2001 we submitted to the Board of Directors a proposal for the establishment of an independent oversight mechanism charged with investigating claims of fraud and corruption. Ethical operation and transparency continue to be our fundamental commitments, so we have made sure that the IIC has internal and external procedures for avoiding and, if necessary, evaluating the risk of corrupt practices in its operations.

### *Looking Ahead*

32. Our mandate to promote the development of our countries has not changed. This year, we will face head on the challenges confronting Latin America and the Caribbean, and we will buttress our efforts to achieve the desired results by working smarter, harder, and more creatively. The outlook for 2002 is such that we will be very careful to approve financing that fosters sustainable development. But we must acknowledge that this will be a difficult year for some of the companies that have already received our support. They, too, will be affected by the adverse climate we discussed earlier. We will doubtless have to provide them with support in the form of restructurings that will require both good faith and imagination on our part. That is our commitment, and we are going to honor it.

33. Small and medium-size companies are the largest source of productive jobs in Latin America today. Irrefutable proof of this lies in the fact that they generate more than 50% of the region's GDP. We must therefore construct institutional networks that provide them with support and viability, especially in times of recession and uncertainty when access to credit becomes much more difficult. The challenge lies in building solid and far-reaching trade, productive, logistical, service, and financial networks that are conducive to versatile, innovative new development in Latin America and the Caribbean. We must support small and medium-size enterprise with stronger incentives in the current adverse environment.

34. The entire staff of the IIC is grateful to Mr. Enrique Iglesias, Chairman of the Board of Directors, for his trust, motivation, and support, and we once again acknowledge his invaluable contribution to the well-being of the countries of Latin America and the Caribbean. I want to thank each and every member of the IIC Board of Directors for the support and guidance they gave us during 2001.

35. The difficulties facing Latin America and the Caribbean are such that, today more than ever, we need your ideas, guidance, and directives for setting our course in the spirit of constructiveness and commitment to progress in the region.

36. In Spanish, there is a wise saying that goes, "*en la multitud de consejeros hay dirección sabia.*" Many advisors mean good advice. We will need that good advice for building peace in the face of terrorism; prosperity instead of poverty; good sense against confusion; and commitment to our region in difficult, uncertain times.