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*IIC/RE-2*

*First Independent  
Evaluation Report to the  
IIC Board of Executive  
Directors*

*Office of Evaluation and Oversight,  
OVE*

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## I. INTRODUCTION

- 1.1 In June 1999, the IIC's Board of Executive Directors agreed that the Corporation should create an evaluation function to assess progress and performance towards the fulfillment of its mission. In this regard, Management and the Board decided that evaluation should be organized around two functions: self-evaluation and independent evaluation. Self-evaluation would be performed by the IIC, as the name implies, while independent evaluation would be carried out by the IDB's Office of Evaluation and Oversight (OVE) on a contract basis.
- 1.2 Under the contract, OVE will:
1. provide advice in defining and reviewing the standards for self-evaluation in consultation with the IIC;
  2. write, and review with the IIC, evaluation instructions as well as guidelines for analysis, benchmarking and processes;
  3. establish the population of projects to be evaluated (projects should satisfy the early operating maturity criterion)<sup>1</sup>;
  4. select the sample of projects to be evaluated;
  5. establish a schedule for evaluations and delivery of reports, jointly with the IIC; and
  6. verify findings and ratings of the self-evaluation reports.
- 1.3 In July 2001, OVE presented a progress report to the IIC Board that focused on issues pertaining to the proposed approach as well as the standards and methods of evaluation to be applied.
- 1.4 This report is OVE's first independent evaluation report. Its purpose is to verify the findings and ratings of sixteen early operating maturity projects that were self-evaluated by the IIC between September 2001 and January 2002. Written as a desk study, without the benefit of field visits, the report is based on IIC's self-evaluations, information from the Annual Supervision Reports, and independent data on borrowers' economic performance. OVE interviewed several of the investment officers and consulted closely with the officer who prepared the self-evaluation reports.

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<sup>1</sup> Following recommendations by the Evaluation Coordination Group of the Multilateral Development Banks (MDB-ECG), "early operating maturity" is the year during which projects generate at least 18 months of operating revenues for the borrowing entities. In the case of financial intermediary operations, which feature distinct, identifiable sub-projects, "early operating maturity" refers to the first full year of operations after final disbursement of sub-loans or sub-investments in the case of equity funds.

- 1.5 This report is divided into four sections in addition to this Introduction: Methodology and Approach (Section II); Review of Self-Evaluation Reports (Section III); Emerging Issues (Section IV); and Conclusions and Proposed Action Plan for Self-Evaluation and Independent Evaluation in 2002 (Section V).

## II. EVALUATION METHODOLOGY AND APPROACH

### A. Methodology

- 2.1 The evaluation methodology followed by IIC with OVE's concurrence is that of the Expanded Annual Supervision Report (XASR), the standardized contents of which have been agreed by the Working Group on Private Sector Evaluation of the Evaluation Coordination Groups of the Multilateral Development Banks.<sup>2</sup> The XASR is an annual supervision report with an evaluative addendum which is reproduced in Annex 1 of this report (the term *expanded* refers to the evaluative addendum).
- 2.2 The XASR is designed to facilitate the review of three evaluative dimensions: Development Outcome (i.e., the project's impact on a country's development); Investment Outcome (i.e., the returns to IIC on its investment); and IIC's Effectiveness in seeing the operation to success. Each of these dimensions is evaluated with reference to a set of indicators—five for Development Outcome, two for Investment Outcome, and three for Effectiveness. Qualitative ratings are assigned to each of the indicators. A composite rating is then assigned to the evaluative dimensions of Investment Outcome and Effectiveness. For reasons explained later (having to do with data limitations), no composite rating is assigned to Development Outcome in this report. It is hoped that this gap can be filled in future reports.<sup>3</sup>
- 2.3 The indicators for each of the dimensions are as follows:
- Development Outcome: assesses the project's contribution to a country's economic development. Indicators:
    1. Project business success: measures the extent to which projects (or sub-projects in the case of financial market operations) achieve their objectives, with emphasis on their contribution to the profitability of borrowing companies.
    2. Company business success: measures borrower profitability, management, competitiveness, and environmental sustainability.
    3. Growth of productive private enterprise: addresses the extent to which projects promote overall development of a sustainable private enterprise sector and the growth of the private sector in a general sense
    4. Growth of the economy: reflects development outcome and measures contributions of projects to overall economic growth as reflected in the end-of-project Economic Rate of Return (ERR), employment generation,

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<sup>2</sup> See OVE's July 2001 Progress Report to the Board, RE-1.

<sup>3</sup> In some of the self-evaluation reports submitted to OVE for independent verification, IIC did assign composite ratings for the dimension of Development Outcome, despite data limitations. In its own independent rating, OVE took the view that this could not be justified.

foreign exchange generation, and value-added for projects other than financial intermediaries.

5. Environmental impact: reflects project impact on the physical environment as well as on social, health, safety, and resettlement factors, as applicable.

- Investment Outcome: determines project's contribution to IIC's profitability. Indicators:
  6. Loan income: assesses the extent to which loan income which was projected at the time of approval will be realized by IIC over the life of the investment, taking into account income already realized by IIC to-date.
  7. Equity returns: assesses the extent to which IIC has realized to-date, and expects to realize over the remaining life of the investment, the equity returns that were expected at approval.
- IIC Effectiveness: Measures how well IIC performed throughout the project cycle with reference to three indicators:
  8. Screening, appraisal and structuring: describes the extent to which IIC has professionally executed its front-end work, considers how and why actual outcomes have differed from expectations at approval, and judges whether IIC structured its investment in the most appropriate way to achieve development and investment objectives.
  9. Supervision and administration: indicates whether IIC's supervision was adequate in monitoring and acting to resolve problems, ensuring compliance with covenants and, in an overall sense, how it contributed to the project's success.
  10. Role and contribution: describes the extent to which IIC adhered to its corporate, country, and sector strategies and operating principles, added value to the project, functioned as a business in partnership with the private sector, helped catalyze private sector investment in the project, and provided client satisfaction.

2.4 The ratings assigned to the indicators for each evaluative dimension and the composite ratings for the dimensions of Investment Outcome and Effectiveness fall into one of the following categories: *Excellent*, *Satisfactory*, *Partly Unsatisfactory*, *Unsatisfactory* (four possible attributes).<sup>4</sup> See Annex 2 for definitions of ratings for individual indicators, as provided by the IIC. As an example, it follows from Annex 2 that the indicator "project business success" is rated *Excellent* when  $FRR > WACC + 2.5\%$ ; *Satisfactory* when  $FRR > WACC$ ; *Partly Unsatisfactory* when  $FRR > WACC - 2\%$ ; and *Unsatisfactory* when  $FRR < WACC - 2\%$ .<sup>5</sup>

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<sup>4</sup> The composite ratings for the dimension of Development Outcome (where assigned by the IIC as reported in this report) come in six categories: *Highly successful*, *Successful*, *Mostly successful*, *Mostly unsuccessful*, *Unsuccessful*, and *Highly unsuccessful*.

<sup>5</sup> FRR: Financial rate of return; WACC: Weighted average cost of capital.

- 2.5 Composite ratings are “averages” of the individual indicator ratings for the dimension in question (recall that we are talking about qualitative indicators, not numerical ones). This is straightforward if the individual ratings of the indicators of a given evaluative dimension are equal or evenly distributed across the spectrum of possibilities. Where this is not the case, the rule that the composite can be no better than the highest and no worse than the lowest of the individual ratings applies. In addition, each indicator is reviewed, and the performance that would have been necessary for it to merit the next higher or lower mark is assessed (sensitivity analysis).
- 2.6 No ratings were developed for the indicator “growth of the economy” which is an element of the Development Outcome dimension. The indicator appears in IIC project documents for direct investments and for support to some financial intermediaries. The documents include a table called the “development impact matrix”<sup>6</sup> that contains projections of the ERR at the point of project completion and forecasts with respect to employment creation, the generation of foreign exchange, and value-added. However, IIC has not yet begun to recalculate ERRs at project completion and does not systematically collect data on other variables needed to assess the project’s contribution to the growth of the economy. As a result, one cannot rate this indicator at the present time. Therefore, and in view of the importance of the “growth of the economy” variable in the five-factor constellation that measures the dimension of Development Outcome, one is compelled to refrain from formulating a composite rating for this dimension.
- 2.7 The absence of a systematic effort at data collection on the variables listed in the development impact matrix included in Board documents is something that should be corrected. The cost of correction would appear to be minor since the data required (companies’ export earnings, payroll and employment data, etc.) are (or should be) readily available at the level of the individual enterprises supported by the IIC. The Corporation does establish base-line information for the development impact matrix at project approval. But to safeguard this investment and to facilitate ex-post evaluation, the data need to be updated throughout the life of the project. As long as this is not done, the development impact matrix found in project documents is of limited use.

## **B. Selection of Projects**

- 2.8 Of 113 projects in IIC’s portfolio at the stage of “early operating maturity” (Annex 3), IIC and OVE selected a sample of twenty investments (in September 2001) believed to be representative of the Corporation’s portfolio as a whole. The selection criteria took into account a range of characteristics, including country distribution, risk distribution, and the share of direct investments versus investments to financial intermediaries. Of the twenty projects, eleven were direct

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<sup>6</sup> The development impact matrix is a required table in project documents for direct corporate investments that indicates the expected level of the following variables at the point of project completion: ERR, total value-added, NPV of total value-added and of value-added per dollar invested, investment cost per job created, and foreign exchange generation (total and per dollar invested).

corporate investments, eight were investments in financial intermediaries, and one was an investment in a venture fund. As of January 2002, OVE and IIC discussed sixteen self-evaluation reports from this sample of twenty investments.

- 2.9 Some 60% of the twenty selected projects operated in A&B countries, the remainder being located in C&D countries (Argentina: 6 projects, Brazil: 4, Bolivia: 3, Uruguay: 2, Peru: 1, Honduras: 1, El Salvador: 1, Mexico: 2). In terms of risk distribution, IIC rated fourteen of the investments as “low risk” falling into the categories *Satisfactory A*, *Satisfactory B*, and *Mentioned*, and six as “high risk” in the categories *Loss*, *Write Off*, and *Substandard*. With respect to the breakdown between direct investments and investments in financial intermediaries, about 60% were direct investments, the remainder being investments in financial intermediaries. This distribution between risk categories, geographic breakdown and type of investment corresponds closely to the Corporation’s actual portfolio in July 2001.

### C. Process

- 2.10 As stated in OVE’s July 2001 Progress Report to the Board, the Corporation originally planned to complete fifty “simplified”<sup>7</sup> self-evaluation reports by the end of 2001. When it became apparent that these reports prepared by the IIC lacked part of the necessary evaluative information, OVE expressed the view that it would be preferable to have a smaller number of in-depth reports than a larger number of “simplified” ones. Following discussion of this point, the IIC adjusted its self-evaluation plan in September 2001 with the objective of concentrating on twenty in-depth reports.
- 2.11 The implementation of this plan proved more difficult than expected. The self-evaluation function was delegated to the IIC Finance Division. The Division had to organize itself and hire an Evaluation Officer before the actual evaluation work could be initiated. This phase concluded, about three self-evaluation reports were generated per month. The Finance Division also contributed to the training of investment officers who are expected to be more closely associated with the self-evaluation process in 2002.
- 2.12 While, in general, the quality of self-evaluation reports improved over time,<sup>8</sup> two issues hampered progress. First, the fragmented nature of the information needed to complete the self-evaluation reports. In this regard, a major obstacle was that the IIC’s Portfolio Supervision System (PSS) does not include all the supervision reports and other data needed for evaluation, and/or does not include updated information. The second issue pertained to the role of the investment officers in self-evaluation. In discussions with IIC Management, OVE took the view that the investment officers should be associated with the task of self-evaluation from the beginning. Their knowledge of the projects is a valuable asset for evaluation. It

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<sup>7</sup> This original planned format was less comprehensive than the current one and lacked evaluative information.

<sup>8</sup> There were gaps in the early XASR’s submitted to OVE, subsequently corrected. However, as experience with the XASR format grows, OVE expects the quality of the self-evaluation reports to further improve.



can make the process of self-evaluation both more efficient and more meaningful. Management assured OVE that investment officers would increasingly be drawn into the evaluation exercise. As time went by, this did begin to happen, although the officers have not actually produced any of the self-evaluation reports so far. It is expected that in 2002 the task of writing the reports will shift from the Evaluation Officer to the investment officers.

- 2.13 Despite these difficulties, IIC was able to complete sixteen self-evaluation reports by January 2002, as mentioned. (Four additional reports are under preparation as of March 2002.) It is clear that the scope and weight of the evaluation task is far greater than originally anticipated by Management. This will need to be addressed in the context of the discussion of the proposed evaluation work program going forward.

#### **D. Approach to the Verification of Self-Evaluation Reports**

- 2.14 In carrying out its independent assessment, OVE reviewed each of the indicator ratings in IIC's sixteen self-evaluation reports, adjusting them as deemed appropriate based on a review of the XASR and (where appropriate) independent sources of information. As mentioned earlier, no overall ratings were provided or assessed for "Development Outcomes." However, four of the five indicators for this evaluative dimension were rated.
- 2.15 OVE *upgraded* one of the IIC's ratings (the environmental impact indicator for an Andean food processing project) and *downgraded* some 8 % of the ratings, which indicates little disagreement between OVE and the Corporation with respect to the ratings. Annex 4 provides a summary of IIC and OVE individual performance ratings of the 16 projects evaluated. The relatively low rate of challenge to self-evaluation findings suggests that the self-evaluation exercise done by the IIC was generally of good quality. IIC's and OVE's summary performance ratings in Table 3.1 show that the downgrading occurred mainly with respect to the evaluative dimension of Effectiveness (3 projects). Individual indicators for this evaluative dimension were downgraded as follows: "Screening, Appraisal, and Structuring:" 3 projects; "Supervision and Administration:" 2 projects; and "Role and Contribution:" 1 project. In the Development Outcome dimension (no composite rating), downgrading occurred in three projects for the following indicators: "Project Business Success:" 1 project; and "Growth of Productive Private Enterprise:" 2 projects. In most cases, IIC agreed with OVE's recommendation to downgrade ratings.

### III. OVE REVIEW OF SELF-EVALUATION REPORTS

- 3.1 This section presents OVE's assessment of the IIC self-evaluation reports. The data are summarized in Table 3.1, from which it is apparent that there was relatively little disagreement with respect to the ratings. For each evaluative dimension and each indicator (as appropriate) differences between the two assessments are pointed out and explained. On a sample basis, and for illustrative purposes, projects with indicator ratings by OVE in the two extreme categories of *excellent* and *unsatisfactory* are identified and the reason for the extreme rating is provided.
- 3.2 Expanded Annual Supervision Reports are not attached to this report, but are available for examination at OVE offices on request. Two XASR *abstracts* (one for a corporate direct investment and one for an investment in a financial intermediary) are provided in Annex 4 for illustrative purposes.

#### A. Development Outcome

##### 1. Project Business Success

- 3.3 OVE rated ten of the sixteen projects (62%) as either *excellent* or *satisfactory* (the IIC's rating has 69% of projects in these categories). The remaining six projects (38%) had a *partly unsatisfactory* or *unsatisfactory* rating in OVE's analysis (IIC places 31% of projects in these categories). OVE downgraded one project, an investment in a technology company in Brazil, from *satisfactory* to *partly unsatisfactory* because its objectives were only partially achieved.
- 3.4 The downgraded project's (ambitious) objectives are to improve productivity, quality, and competitiveness, to become a top worldwide producer of electrical discharge machines, and to move beyond its leadership position in the Brazilian market. The company faced difficulties as a result of economic reforms and market liberalization measures aimed at stabilizing the economy. The company's management introduced production and organizational changes to counteract market decline. However, when the company was ready to start selling abroad, it was hit by foreign competitors that supplied products with proven technology at much lower prices. The project was not able to help the company confront the competitive realities of an open market; the results were negative for all financiers involved in the project.
- 3.5 Projects that were rated *excellent* were characterized by strong management and committed sponsors. As an example a project to improve the production process for Brazil nuts in a remote area in an Andean country can be cited. Thanks to the skills of the sponsor, among other considerations, the company currently supplies 15% of world exports of Brazil nuts.
- 3.6 OVE gave an *unsatisfactory* rating for the Project Business Success indicator of two projects. The reasons behind the unsatisfactory performance were market-

related problems, including tougher than expected competition and lower than expected demand due to adverse economic conditions and weak management. Under one of the projects, a packaging company in Central America initially increased sales according to projections, but market realities were tougher than anticipated. The company's cost structure ended up placing the firm at a serious disadvantage in a highly competitive industry. Additionally, in 1996 Mexico imposed import restrictions on the type of packaging products produced by the company, augmenting its competitive disadvantage and hampering its growth in that market. This led to negative operational results in the last two years.

**Table 3.1: IIC and OVE Summary Performance Ratings (16 projects)<sup>1</sup>**

	HIGH OUTCOMES			LOW OUTCOMES		
	Highly Successful	Successful	Mostly Successful	Mostly Unsuccessful	Unsuccessful	Highly Unsuccessful
DEVELOPMENT OUTCOME (no OVE ratings were assigned)	19%; <i>N.A</i>	25%; <i>N.A</i>	25%; <i>N.A</i>	25%; <i>N.A</i>	6%; <i>N.A</i>	0%; <i>N.A</i>
	Excellent	Satisfactory	Partly Unsatisfactory	Unsatisfactory		
Project business success	31% ; <i>31%</i>	38% ; <i>31%</i>	18% ; <i>25%</i>	13% ; <i>13%</i>		
Company business success	25% ; <i>25%</i>	37% ; <i>37%</i>	25% ; <i>25%</i>	13% ; <i>13%</i>		
Growth of productive private enterprise <sup>2</sup>	19% ; <i>19%</i>	51% ; <i>44%</i>	24% ; <i>24%</i>	6% ; <i>13%</i>		
Growth of the economy (no OVE ratings were assigned)	37% ; <i>N.A</i>	13% ; <i>N.A</i>	37% ; <i>N.A</i>	13% ; <i>N.A</i>		
Environmental impacts <sup>3</sup>	6% ; <i>0%</i>	62% ; <i>62%</i>	32% ; <i>38%</i>	0% ; <i>0%</i>		
IIC's INVESTMENT OUTCOME	13% ; <i>13%</i>	56% ; <i>56%</i>	13% ; <i>13%</i>	18% ; <i>18%</i>		
Loan <sup>4</sup>	13% ; <i>13%</i>	54% ; <i>54%</i>	13% ; <i>13%</i>	20% ; <i>20%</i>		
Equity <sup>5</sup>	0% ; <i>0%</i>	50% ; <i>50%</i>	17% ; <i>17%</i>	33% ; <i>33%</i>		
IIC EFFECTIVENESS	6% ; <i>0%</i>	50% ; <i>44%</i>	44% ; <i>56%</i>	0% ; <i>0%</i>		
Screening, appraisal, structuring	19% ; <i>19%</i>	37% ; <i>31%</i>	44% ; <i>38%</i>	0% ; <i>13%</i>		
Supervision, administration	0% ; <i>0%</i>	69% ; <i>56%</i>	31% ; <i>38%</i>	0% ; <i>6%</i>		
Role and contribution	25% ; <i>25%</i>	44% ; <i>38%</i>	25% ; <i>25%</i>	6% ; <i>13%</i>		

<sup>1</sup> The IIC ratings are in regular font style; OVE ratings are in italics.

<sup>2</sup> In eight projects no rating was assigned by the IIC.

<sup>3</sup> Information was available only for 12 projects.

<sup>4</sup> Fifteen of the evaluated projects had a loan component.

<sup>5</sup> Six of the evaluated projects had an equity component.

## **2. Company Business Success**

- 3.7 As with Project Business Success, ten of the operations evaluated (62%) were rated as *excellent* or *satisfactory*. Six projects (38%) received less than satisfactory ratings. OVE and IIC agreed on the ratings for this indicator.
- 3.8 Projects rated *excellent* are characterized by companies with experienced management, committed sponsors and high profitability. These companies are efficient producers compared to competitors, and are likely to enjoy stable or increasing market shares. A bank in a Southern Cone country can be cited as an example. The bank far exceeded the goals originally established under the IIC's engagement with it, financing more than 1,500 companies and recycling the IIC credit line thanks to a well-structured pipeline of SME projects and knowledge of this sector.
- 3.9 The reasons for *unsatisfactory* ratings on the Company Business Success indicator included the opposite: weak management, uncommitted sponsors, and/or unforeseen external difficulties. An example of a project in this category is a line of credit extended to a bank in an Andean country. The bank was able to allocate only half of the credit line, essentially because it did not have a lending and investment pipeline at the time of signature of the agreement. The deteriorating economic situation in the country in question led to a slowdown in the demand for credit. Of the seven projects originally financed, four prepaid and three are still outstanding with a remaining balance for the operation of US\$ 1.5 million. The bank's difficulties were caused by a constellation of factors that included a less than transparent capital position coupled with management challenges, a collection of non-performing loans, and liquidity problems, all of which were exacerbated by a financial crisis in the country that affected the company's performance during the period covered in the XASR.

## **3. Growth of Productive Private Enterprise**

- 3.10 For this indicator, OVE rated ten of the reviewed projects (63%) as *excellent* or *satisfactory*. The remaining six projects (38%) had less than satisfactory outcomes. OVE downgraded two projects, one from *satisfactory* to *partly unsatisfactory*, the other from *partly unsatisfactory* to *unsatisfactory*.
- 3.11 The first of these project (the above-cited technology project in Brazil) was downgraded to *unsatisfactory* because the revealed contribution to the growth and development of the private sector was considered to be very low. While the objective of increasing the company's productivity was attained to a degree, the changes involved were not enough to overcome adverse market forces. The company came under great financial pressure.
- 3.12 The second of these projects (a loan to a Bank in Brazil) was downgraded because it had little impact on the indicator Growth of Productive Enterprise: during the

reference period, only 42 of 200 on-lending operations expected at board approval were carried out.

- 3.13 The companies supported by projects rated *excellent* had firmly established themselves with clients and suppliers and had linkages that helped catalyze follow-on private investment in the country. An example of this was an export-processing zone in Central America. This project assisted local entrepreneurs in developing managerial expertise and skill improvements, adopt new technology, generate employment and foreign exchange, capture FDI and contribute to raising competitiveness. Given that this project was the first of its kind in the country, it is believed to have had a demonstration effect in such areas as how to improve workers' conditions and how to apply concern for the environment through the treatment of water and solid effluents. In 1996, Business Week singled this company out as an example of quality and "aboveboard" working conditions and worker pay.
- 3.14 The projects rated *unsatisfactory* displayed no positive effects on private enterprise. One of them, the financial sector operation in an Andean country mentioned above made no contribution to the development of a sustainable viable financial institution. Only a small number of firms benefited from the IIC credit line and the bank ultimately merged with another financial institution. The amount of funding disbursed relative to the size of the bank was insufficient for the project to have had a discernible impact on the bank's viability or on the financial markets (less than 1% of the bank's liabilities). The bank's poor corporate governance was a key factor in its failure.

#### **4. Growth of the Economy**

- 3.15 As explained earlier, due to lack of information OVE did not assign ratings to this indicator. The IIC provided ratings for eight projects.

#### **5. Environmental Impact**

- 3.16 Eight of the 13 projects reviewed (62%) had *excellent* or *satisfactory* ratings. In five of the projects (38%), environmental impact was rated *partly unsatisfactory*. OVE upgraded one project in this indicator rating. While OVE did not downgrade any projects in this category, in three cases it took the view that there was not enough information to assign ratings to the environmental impact indicator. IIC's *satisfactory* ratings of these operations were left standing.
- 3.17 The term "environmental impact" is interpreted broadly to include effects on the physical environment and social, cultural, health and safety aspects as relevant and appropriate. An example of an investment rated *excellent* on environmental impact is the Brazil nuts project mentioned above. This company uses environmentally friendly production processes. It received international certification so that it could label its products as organic in compliance with European Union regulations. In addition, working conditions of employees have

improved since the startup of operations and are considered an industry standard locally. For these reasons, OVE upgraded this project on the environmental impact indicator.

- 3.18 In the projects rated *partly unsatisfactory*, the sponsors failed to comply with IIC's guidelines. One example is a loan to a bank in an Andean country. The project required the bank's management to attend IIC's environmental training course and to implement an environmental management system to ensure that sub-projects complied with environmental policies and guidelines. The bank failed to introduce an environmental management system and/or incorporate an environmental dimension into its credit review.

## **B. Investment Outcome**

- 3.19 Where IIC had both a loan and an equity investment, the rating is a composite of the two investments. On Investment Outcome, as shown in Table 3.1, eleven of the projects (69%) were rated *excellent* or *satisfactory*. In five projects (31%), investment outcome was rated *partly unsatisfactory* or *unsatisfactory*. OVE and IIC agreed on all the ratings.

### **1. Loan Income**

- 3.20 Ten out of fifteen projects (67%) were rated *excellent* or *satisfactory*. The remaining five projects (33%) were rated *partly unsatisfactory* or *unsatisfactory*. There were no disagreements between IIC and OVE with respect to ratings in this category.
- 3.21 Loans rated *excellent* are those that are fully performing and through built-in incentives (e.g. income participation) earn significantly more than those without such incentives. Two projects were rated *excellent*. In one case, the investment is so rated because all payments have been received on schedule, the company is well capitalized and no problems are expected in the future. Additionally, the IIC has a 1% participation in the company revenues. The reason why IIC decided not to exercise the option of converting the "B" loan into equity was due to liquidity issues and the low degree of development of the local stock market.
- 3.22 An *unsatisfactory* rating is given on account of one or more of the following factors: the loan is in non-accrual status; IIC has established specific loss reserves; the loan has been rescheduled but IIC does not expect to recover 100% of its loan funding cost; the loan is a loss. One example is a loan with an equity facility to a food processor in the Southern Cone. The loan is currently in non-accrual status for the second time and provisions have been made by IIC for any potential loss. The "A" loan was rescheduled two years ago and is currently in default. The "B" loan is also in default. The repurchase of IIC's equity investment was negotiated above costs, but until today only part of the payment expected has been received.

## 2. Equity

- 3.23 Only six of the projects reviewed had an equity component; three out of these (50%) were judged to have satisfactory returns. The remaining three (50%) were rated *partly unsatisfactory* or *unsatisfactory*. No project was rated *excellent*. IIC and OVE agreed on all the ratings.
- 3.24 *Satisfactory* equity returns are characterized by a nominal US\$ internal rate of return on equity (equity IRR)  $> \text{FRR} + 5\%$ . An example for a satisfactory project is a loan and a quasi-equity portion to a petrochemical company in the Southern Cone. Although the IIC received a 14.23% IRR as payment on shares held in the company, the equity facility was not rated as excellent since the original objective of exiting through a successful IPO was not accomplished. Nonetheless, returns were very positive.
- 3.25 *Unsatisfactory* equity returns are characterized by equity IRR  $< \text{FRR} + 2\%$ . An example for an unsatisfactory rating is the equity facility provided to the food processor in the Southern Cone mentioned earlier. Although the company agreed to buy the IIC's equity participation at a premium of US\$ 3.2 against the US\$ 2.0 million the IIC paid for these shares, negotiations have not yet materialized. The IIC received US\$ 1 million in advance for this transaction but no documents have been signed as to when this transaction is going to be completed and ownership of shares is going to be transferred to the company.

## C. IIC Effectiveness

- 3.26 The composite IIC Effectiveness ratings averaged in the *satisfactory* range for seven of its investment operations (44%). Considering that IIC's ability to influence an operation is greatest between screening and disbursement, this composite rating reflects the overall value-added by IIC to a country's development and to IIC's profitability. There is no example of an *excellent* project in this category. Nine of the investment operations (56%) had *partly unsatisfactory* ratings. OVE downgraded three projects, one from excellent to *satisfactory* and two from satisfactory to *partly unsatisfactory*. The reasons for the downgrading are given in the context of the individual indicator ratings below.

### 1. Screening, appraisal and structuring

- 3.27 Eight of sixteen projects evaluated (50%) were rated *excellent* or *satisfactory*. The remaining eight operations were rated *unsatisfactory* or *partly unsatisfactory*. OVE downgraded three projects—two from partly unsatisfactory to *unsatisfactory* and one from satisfactory to *partly unsatisfactory*.
- 3.28 The two cases that were downgraded to *unsatisfactory* are first, the bank in the Southern Cone already referred to and, second, the technology company in Brazil, also mentioned above. While in the first project there was a strong rationale for IIC participation in terms of institution building, the development of investment banking activities by a regional financial group, and the fostering of cross border

securities trading, an entity without expertise in investment banking was chosen. The IIC failed to thoroughly analyze the intermediary's capacity. Also, no detailed strategic plan was designed to achieve the project's objectives. The bank was not able to find any potential clients for quasi-equity operations. Only a few new common stock issues were underwritten. There was no underwriting of public or private debt financed with IIC funds. Overall, sub-project returns were not sufficient to cover costs of associated debt.

- 3.29 The reason for the downgrading of the second project (the technology company in Brazil) was that the risks were not properly assessed. For example, the firm needed a technology partner. A collaboration agreement with such a partner should have been a condition for disbursement. Also, there were issues with respect to IIC's collateral. The collateral should not only have been a pledge on the fixed assets acquired as part of the project, but the whole plant as a strategic value.
- 3.30 The project downgraded to *partially unsatisfactory* was the Pulp and Paper Company in Brazil because the risks were not adequately assessed, leading (in the context of a crisis in 1999) to the need to eliminate the condition for the envisaged IPO in exchange of a better security package.
- 3.31 An *excellent* rating is assigned to projects where IIC front-end work can be used as a best practice example. An example of a project in this category is the loan to a bank in the Southern Cone. Screening for this project could serve as a best practice example. The bank got into the pipeline of the IIC following a study of the country's financial market which pointed to this bank as a prominent actor in the SME market. Project staff performed a detailed analysis of the bank's capability to reach SMEs and its pipeline of potential projects. The conditions for qualifications of sub-projects and disbursement were negotiated between the bank and the IIC, and contributed to the establishment of achievable goals.
- 3.32 An *unsatisfactory* rating is assigned a) to projects with material shortfalls in appraisal assumptions about the market, the sponsors, and company performance prospects, b) to projects where risks are not identified or mitigated, and c) to projects where an obvious mistake is made in screening, appraisal or structuring. There were two *unsatisfactory* projects by these criteria. The technology company in Brazil fell into this category because of an inadequate risk assessment.

## **2. Supervision and Administration**

- 3.33 Nine operations reviewed (56% of the total) were rated *satisfactory*. No projects were rated *excellent*. The remaining seven of the projects (44%) were rated *partly unsatisfactory* or *unsatisfactory*. OVE downgraded two projects, one from *satisfactory* to *partly unsatisfactory* and the other from *satisfactory* to *unsatisfactory*.



- 3.34 In the case of the project downgraded to *unsatisfactory* (again, the bank in the Southern Cone) IIC's credit risk rating did not change between September 2000 and October 2001 despite a strong deterioration of the economic situation of the country. This loan was considered very low risk by the IIC and is at the present moment in non-accrual status. In the case of the project downgraded to *partly unsatisfactory* IIC's supervision was insufficient to monitor the project and the company's performance. The company changed from a low risk company with no debt to a highly indebted company after the devaluation of local currency in 1999. Although the IIC received a letter from the company requesting rescheduling in 1999, the credit rating was hardly changed and the credit risk rating of the IIC changed only slightly.
- 3.35 A *satisfactory* project is characterized by the IIC as being sufficiently well documented such as to make it possible to react in a timely manner to any material change in the project and company performance. An example for a satisfactory project by these criteria is the loan to a petrochemical company in the Southern Cone. Annual supervision visits were comprehensive and encompassed a review of the project performance as well as market risk. Special attention was paid to trends in oil prices, the restructuring of the company's short-term debt, and, generally, the health of the company's different divisions.
- 3.36 An *unsatisfactory* rating is assigned to projects where the IIC missed some material developments of the project and did not use some available information to intervene before a crisis. An example for an *unsatisfactory* rating was the loan to the bank in the Southern Cone for the reasons described above.

### **3. Role and Contribution**

- 3.37 Ten of the operations reviewed (63%) were rated *excellent* or *satisfactory*. The remaining six of the operations reviewed in this category (37%) had *partly unsatisfactory* or *unsatisfactory* ratings. OVE downgraded one project from *satisfactory* to *unsatisfactory*.
- 3.38 The *unsatisfactory* rating was assigned to the petrochemical company in the Southern Cone, a large Latin American conglomerate (number 12 in assets of Latin America's top firms in 2000) where the value-added by the IIC was minimal. The affirmation that the company did not find alternative financing is difficult to accept, since the company has access to international markets. There was no value added from IIC's involvement in this case because the Corporation is a small player in this sector where scale considerations and the nature of the product cycle call for "big players."
- 3.39 *Excellent* projects under the indicator Role and Contribution of the IIC are investments where the Corporation was essential for the activity to go ahead. An example of a project where this obtains is a greenfield operation to improve the production process for Brazil nuts in a remote area in an Andean country. The IIC played a key role in this case. In addition to providing scarce long-term financing,

this project contributed to technology transfer, job creation, environment-friendly production processes, and positive financial returns.

- 3.40 An *unsatisfactory* rating was again given to the project for the petrochemical company where IIC's role was not believably "additional."
- 3.41 The results suggest that there is scope for improvement especially in front-end processing involving project screening, appraisal, structuring, and supervision. In looking at the projects that were rated low in these categories, problem areas included risk assessment and mitigation. In some cases, market analysis was weak which impacted on financial projections.

#### IV. EMERGING ISSUES IN THE REVIEW PROCESS

- 4.1 In the process of verifying the IIC self-evaluation exercises, a number of issues that would appear to be worthy of discussion and corrective action were identified. They are listed below, with the caveat that they emerged from the review of a small sample of self-evaluated projects from which one should not attempt to draw general conclusions:
1. Development Impact Matrix in Project Reports. As mentioned earlier, IIC Board documents include indicators for measuring the developmental impact of IIC's financing, including in particular the ERR and data on job creation, foreign exchange generated, and value-added. So far, the IIC has not systematically compared indicators submitted at the time of Board approval with actual outcomes. It is recommended that this be done in order to make impact assessments possible.
  2. Records Management. Information in IIC's on-line Portfolio Supervision System (PSS) does not capture all incoming information and is not maintained systematically. OVE found cases where supervision reports were not in the PSS. The information may be available elsewhere, but because it is not online, it is not easily accessible by Management. In the case of a bank in the Southern Cone and in that of a Mexican venture capital fund, for example, only one supervision report, dated in 1998, was found in the PSS. In the case of a bank in an Andean country, the risk rating was not updated in the face of structural change. Information in the PSS has also been found to be incorrect, for example, in the case of a bank loan in the Southern Cone where substantially incorrect figures were included in the XASR based on data from the PSS. Additionally, the most recent financial data in the PSS for this loan are more than two years old.
  3. Credit Risk Ratings and Supervision. In several instances, IIC neither tracked borrower credit risk nor did it reflect significant changes in borrower financial performance in its ratings. For instance, in a pulp and paper project, the company—originally given a low risk rating—became highly indebted following devaluation. Its request for a rescheduling of its loan did not prompt a significant alteration in the IIC's rating on the firm. In the case of a petrochemical company in the Southern Cone, the credit rating remained unchanged between August 2000 and August 2001 even though Standard & Poors' downgraded the company's outstanding international debt twice during this period. Finally, in the case of a bank in the Southern Cone, the rating did not change between September 2000 and October 2001 despite a marked deterioration of the country's economic situation and repeated downgrading of the company's debt by Standard & Poor's. (Downgrading by the IIC did occur in December 2001.)

4. Financial Analysis. The reasons for significant variations from projections at approval are generally not included in the XASRs. For instance, in the case of an Argentine bank, projections at approval assumed a bank size (in total asset terms) of one sixth of the actual size of the bank at project completion. Attention was not paid to this issue in the XASR, and the reasons behind such a dramatic expansion were not explained. Similarly, no projections were included for key financial indicators (i.e. in credit quality, asset liability management, profitability, etc.). OVE has recommended that the IIC address in XASR analyses the differences between original projections and outcomes.
5. Calculation of ERR. The IIC method of calculating ERRs produces results higher than warranted. Specifically, in the projects reviewed by OVE, the IIC calculates the ERR by adding to the cash flow the amount paid in taxes and interest. However, this definition is too narrow. It ignores a host of reasons why private and social costs and benefits may differ, including, for example, the effects of trade protection or other sources of price distortions. The ERR is the internal rate of return on the investment, with all costs and benefits determined from the perspective of society as a whole. There exist more sophisticated, yet feasible, approaches to calculating ERRs, and the IIC should look into these. Also, as mentioned earlier, ERRs should be systematically recalculated at project completion.
6. Environmental Impact. The monitoring of the environmental impact is based on desk reviews and on-site visits of investment officers when doing their Annual Supervision Reports. In some projects the Office of the Chief Engineer carries out an in-depth ex-post environmental evaluation. The feasibility of putting this valuable exercise on a more regular footing should be explained. Due to budget constraints, reportedly, the IIC limits environmental impact monitoring over time to those projects for which trust funds to finance this activity can be mobilized.
7. Coordination with IDB: Credit Lines. OVE found in all five instances of credit lines to financial intermediaries that the pricing<sup>9</sup> and terms under the IIC lines of credit were different from those under the lines approved by the IDB for the same country at the same time. There may be good reasons for these differences, but IIC documents do not spell them out. It is recommended that this be done in the future.

In several cases, IIC negotiated credit lines to financial intermediaries that had previously received global credit lines from the IDB, with the result that there appeared to be a duplication of coverage. The potential for duplication was generally not recognized in pertinent IIC documents. IIC documentation should assess the value added of the Corporation's involvement in such instances and should address any issues of coordination and consistency.

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<sup>9</sup> Two different pricing concepts were found to be in use: IIC's pricing is based on the international market (LIBOR+), whereas the IDB's is determined by the local cost of mobilization of deposits in the country including the cost of reserve requirements.

8. Financial Intermediaries' Experience in Working with SMEs. Analysis of projects with financial intermediaries suggests that the IIC in some cases did not select banks with experience in SME financing. Specifically, in three cases financial intermediaries selected by IIC did not have an established pipeline (banks in Argentina and Brazil without experience in SME lending.) As a result, these intermediaries were unable to achieve the level of lending anticipated. When structuring deals, the IIC should ensure that financial intermediaries have a pipeline in place. A pipeline would indicate that there is enough credit-worthy demand for the product IIC offers. The importance of well-structured pipelines and SME experience as determinants of success in this field are illustrated by a loan to a bank in the Southern Cone through which the goals originally established were far exceeded, with more than 1500 companies financed.
9. Closely Held Corporations. There is evidence that the IIC in its risk assessment at appraisal does not take into account the possible impact on company governance and succession plans which arise when dealing with closely held and particularly family-owned firms. With IIC operations focused on SMEs, it inevitably deals with family owned businesses and closely held corporations that carry unique risks. Business operations are adversely affected whenever there is a breakdown in relations among the ownership group. This is illustrated in one of the operations reviewed for this evaluation where a family dispute consumed company resources, with the result that the future of the company is now in jeopardy.
10. Use of Lessons Learned. With its evaluation function becoming operational, IIC will need to introduce mechanisms for ensuring that lessons learned from evaluations are taken into consideration to ensure institutional learning. The IIC has plans to introduce an online database incorporating lessons learned from evaluation. This is commendable, and it is recommended that lessons learned be made available to IIC staff in the context of a learning framework that is yet to be designed. However, the development of a learning framework is a substantive task that should be undertaken more systematically.

## **V. CONCLUSIONS AND PROPOSED ACTION PLAN FOR SELF-EVALUATION AND INDEPENDENT EVALUATION IN 2002**

- 5.1 The exercise of self-evaluation / independent evaluation reported herein is believed to have been useful inasmuch as it has permitted the accumulation of experience with the XASR-based evaluation methodology. (The exercise has also afforded many useful opportunities for methodological discussion between OVE and the IIC.) The XASRs now include quite comprehensive information regarding the evaluative dimensions of Development Outcomes, Investment Outcome and Effectiveness. A seminar for IIC Management and staff of the corporate division of the IIC, held on December 14, 2001, permitted discussion of evaluation methodology with the investment officers who will, in future, be responsible for preparing the XASRs.
- 5.2 The analysis and conclusions of this report are based on a review of sixteen projects—a small fraction of the total population of early maturity projects. Nevertheless, they have enabled identification of a set of issues in Section IV that are recommended for consideration by Management with a view to improving the Corporation's self-evaluation capacity and some of its internal processes. It is now recommended that the number of projects to be evaluated be increased in line with "absorption capacity" in order to deepen evaluation-based learning and, ultimately, furthering development impact.
- 5.3 For the preparation of OVE's second independent evaluation report, slated for December 2002, it is suggested that the number of IIC self-evaluations be increased to some thirty reports. This would mean that by the end of 2002 close to half of the current portfolio of early maturity projects will have been evaluated (50 out of 113 projects). As experience is gained with the evaluation process and productivity in generating the reports is increased (among other aspects, by tasking the investment officers with self-evaluation); the goal of thirty reports in 2002 appears feasible.
- 5.4 The proposed action plan (Table 5.1) summarizes the tasks to be completed for the 2002 exercise.

**Table 5.1 Proposed Action Plan**

<b>TASKS</b>	<b>BY WHOM</b>	<b>TIMELINE</b>
Finalization of revised model*	IIC	March/April 2002
Finalization of template and outline for self-evaluation reports (for use by investment officers)	IIC/OVE	April 2002
Selection of projects to be evaluated	IIC/OVE	March 2002
Presentations on self-evaluation to IIC Operations staff (Financial Intermediaries Group)	IIC/OVE	March/April 2002
Input of Lessons learned into best practices Database	IIC	March 2002
Preparation of self-evaluation reports by Investment officers	IIC	March-Nov. 2002
Coordination of investment officers' self-evaluation reports	IIC	March-Nov. 2002
Field visits of reviewed projects	OVE	September 2002
Implementation of IIC project monitoring system	IIC	July 2002
Workshop on implementation of evaluation system	IIC/OVE	October 2002
Preparation of second independent evaluation report	OVE	December 2002

\*Takes into account recalculation of ERR, data on employment generation, export earnings, value added, and comparison of financial projections with actual outcomes.

**Expanded Annual Supervision Report (XASR) – Evaluation Addendum**

**(PROJECT NAME)**

Date: June, 2001

[NOTE: This Evaluation Addendum (EA) should be based on an evaluation undertaken in accordance with the XASR instructions. References to “investment” “project”, and “approval” are to the specific investment number selected for this XASR. A good and concise EA should not exceed 4 pages. Please delete this note before finalizing the XASR.]

**1. Objectives at Board approval, achievement to date and prospects:** *(reference source document)*

**2. Summary performance ratings matrix:**

	<i>RATINGS</i>					
	Highly Unsuccessful	Unsuccessful	Mostly Unsuccessful	Mostly Successful	Successful	Highly Successful
<b>1. DEVELOPMENT OUTCOME</b>	<input checked="" type="checkbox"/>					
	<i>{Insert a single, convincing sentence here to explain the rationale for this rating}</i>					
	Unsatisfactory	Partly Unsatisfactory	Satisfactory	Excellent		
<b><u>Business success:</u></b>						
♦ Project	✓					
♦ Company	✓					
<b><u>Project's development impacts:</u></b>						
♦ Growth of productive private enterprise	✓					
♦ Growth of the economy	✓					
♦ Employment generation and social effects	✓					
♦ Environmental effects	✓					



Expanded Annual Supervision Report (XASR) – Evaluation Addendum

<b>2. IIC'S INVESTMENT OUTCOME</b>	<input checked="" type="checkbox"/>			
<i>{Insert a single, convincing sentence here to explain the rationale for this rating}</i>				
◆ Gross contribution — equity <i>DCF-ROE= %</i>	✓			
◆ Gross contribution — loan	✓			

<b>3. IIC'S EFFECTIVENESS</b>	<input checked="" type="checkbox"/>			
<i>{Insert a single, convincing sentence here to explain the rationale for this rating}</i>				
◆ Screening, appraisal, structuring	✓			
◆ Supervision and administration	✓			
◆ Role and contribution	✓			

- Instructions:
1. Move the check marks as required:
  2. Insert the explanations for the *development outcome* and *IIC effectiveness* ratings: and
  3. Delete these instructions before printing.

**Rationale for each of the above ratings:**

Development outcome

**IIC's investment outcome**

**IIC's effectiveness**

1. Screening, appraisal and structuring
2. Supervision
3. IIC's role

Expanded Annual Supervision Report (XASR) – Evaluation Addendum

3. Comparison of appraisal projections and actual outcomes for most recent four years:<sup>1</sup>

(US\$ millions)

Projected (P), actual audited (A) or estimated (E)	Board Report Projections				Actual-to-Date			
	199_	199_	199_	199_	199_	199_	199_	199_
<b>Sector-specific indicators:</b>								
Installed capacity (units)								
Capacity utilization (%)								
Number of competitors								
Sales Volume (units)								
Others (specify)								
<b>Audited Balance Sheet data:</b> <sup>2</sup>								
Current assets								
Fixed assets								
Short-term debt								
Long-term debt								
Equity								
<b>Audited Income Statement data:</b> <sup>2</sup>								
Sales Revenue								
Gross Income								
Operating income								
Interest expense								
Net Income								
Avg Exchange Rate (LC/\$)								
<b>Key financial ratios:</b>								
Gross income/net sales								
Net income/ net sales								
Current ratio (current assets/current liabilities)								
Total liabilities/total equity								
LT debt/total equity								
LT debt service coverage ratio <sup>3</sup>								
Other [specify]								

1 All data are for the total Company; the last year (right-hand columns) should be the current year's estimated results. Indicate year of Project's first revenue contribution (projected and actual). Historical data based on audited accounts. Include other specific indicators, as appropriate

2 In comparable US\$ millions. If Board Report projections were in constant appraisal year prices, adjust reported Actual-to-Date values as follows: (1) convert nominal local currency values to nominal US\$ equivalents using period-average exchange rates (or use as-reported US\$ if available); then (2) deflate the nominal US\$ values to constant appraisal year US\$ values using the US GDP deflator.

3  $LT\ debt\ service\ coverage\ ratio = (cashflow\ from\ operations + Interest\ exp) / (prior\ year\ maturity\ or\ repayments\ of\ LT\ debt + Interest\ exp)$

Expanded Annual Supervision Report (XASR) – Evaluation Addendum

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**Reasons for significant performance variances from Board Report (in descending order of relative importance):**

1.

**4. Emerging lessons from experience to date:**

*(Note: consider outcome drivers and key issues encountered in each of the performance dimensions)*

## IIC Guidelines for Performance Ratings<sup>10</sup>

Performance ratings are assigned for three available dimensions, each of which is assessed by means of certain indicators. The three dimensions are: Development Outcome, IIC Investment Outcome, and IIC Effectiveness. This Annex sets out Guidelines for rating the three dimensions and their component indicators.

### I. DEVELOPMENT OUTCOME

The development outcome rating is a bottom-line assessment of the operation's result on the ground on a six-point scale: highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, and highly unsuccessful. Five indicators are taken into account. Considering all five indicators, the project should be rated as:

- ◆ **Highly Successful:** A project with overwhelming positive development impacts, without any flaws. This is the type of projects IIC would use to illustrate the contribution made to the development of small and medium size enterprises and the private sector in the region.
- ◆ **Successful:** A project without any material shortcomings or some very strong aspects that compensate for any shortfalls.
- ◆ **Mostly Successful:** A project which may have some shortcomings, but with a clear preponderance of positive aspects.
- ◆ **Mostly unsuccessful:** A project with either minor shortcomings across the board, or one significant shortcoming in one area, which outweighs other generally positive aspects.
- ◆ **Unsuccessful:** A project with largely negative aspects, clearly outweighing any positive aspects.
- ◆ **Highly Unsuccessful:** A project with material negative development aspects with no redeeming positive aspects to make up for them.

There are five Development Outcome indicators as defined below, some of which are evaluated differently for non-financial markets and financial markets operations.

#### A. Non-Financial Market Operations

##### 1. Project Business success

A project's business success is a measure of the project's actual and projected financial impact on the company and its financiers. The principal indicator of a project's business performance is its after tax financial rate of return. Calculate the FRR and show in an annex how this value was estimated and include key assumptions for future prices, sales volumes, margins, terminal values, etc.

Project business success will be based on comparing the after tax FRR to an estimate of each country's weighted average cost of capital (WACC). The Finance Division will

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<sup>10</sup> Adapted from IIC Internal Guidelines for preparation of Expanded Annual Supervision Reports by Investment Officers.

provide the cost of capital. Where the FRR falls near a rating benchmark, the XASR should evaluate the sensitivity of the performance rating to the key assumptions. The benchmarks are:

- ◆ Excellent:  $FRR > WACC + 2.5\%$
- ◆ Satisfactory:  $FRR > WACC$
- ◆ Partly Unsatisfactory:  $FRR > WACC - 2\%$
- ◆ Unsatisfactory:  $FRR < WACC - 2\%$

For all those projects for which an FRR can not be calculated like for example bond or equity underwriting or financial restructuring, the guiding principle should be the project's incremental impact on the company's financiers. If this impact can not be quantified, judgement should be made on the project's business/profit objectives:

- ◆ Excellent: Objectives largely surpassed
- ◆ Satisfactory: Objectives broadly achieved
- ◆ Partly Unsatisfactory: One or more main objectives were not met
- ◆ Unsatisfactory: Most objectives were not met.

## **2. Company's Business Success**

The company's past and expected performance – in absolute and relative to other firms in the same country and/or industry – is evaluated on: (i) profitability; (ii) market and sales; (iii) sponsors, management and work force; and (iv) company development. Company performance is rated excellent, satisfactory, partly unsatisfactory, or unsatisfactory based on a systematic assessment and subjective weighting of these factors.

## **3. Growth of Productive Private Enterprise**

Performance is rated as excellent, satisfactory, partly unsatisfactory, or unsatisfactory based foremost on the development of a sustainable private enterprise and, secondarily, on project-induced effects such as: (i) upstream and downstream linkages to local private businesses; (ii) adoption of new technology, development of management skills, and employee training; (iii) demonstrations of entrepreneurship and competitiveness; (iv) domestic capital market development (e.g. pioneering listing on stock exchange or significant broadening of listed value; first-of-a-kind financing instrument; introduction of international accounting standards or enhanced disclosure standards); (v) changes in government policy, legal, tax, accounting, or regulatory framework; (vi) development of infrastructure available to other private users, and (vii) improved business practices and enhancement of company reputation.

Performance in this area should be measured as:

- ◆ Excellent: Considering its size, the project made a substantial contribution to the growth of small and medium size enterprises or the development of the private sector or the efficiency of financial markets beyond the company.

- ◆ Satisfactory: The project had some but no major positive impacts.
- ◆ Partly Unsatisfactory: The project had some negative effects; however, these were not expected of long duration or broad negative demonstrative effects.
- ◆ Unsatisfactory: Substantial negative impacts of broad applicability and/or expected to be of long duration.

#### **4. Growth of the Economy**

The indicator is based on the project's net quantifiable social benefits and costs, as measured in the Economic Rate of Return (ERR). The project is rated excellent if the ERR > 20%; satisfactory: ERR > 12%; partly unsatisfactory: ERR > 8%; unsatisfactory: ERR < 8%.

#### **5. Environmental Impact**

**Note:** This section should always be cleared by the IIC's Chief Engineer Office.

The IIC requires that all operations be carried out in an environmentally and social responsible manner and comply with IIC's mission of promoting sustainable development in the region. Environmental effects should be benchmarked against the IIC's current practices for this area. For this purpose, the office of the Chief Engineer designed the "Environmental Risk Rating" which is a numerical grade, based on the environmental performance of the project against current practices for environment, occupational health and safety and labor. Since the "Environmental Risk Rating" is still a new system developed based on a small population of projects, it should still be considered as a relative measure until the grading system is further tested in the years ahead.

Environmental Effects should be rated as<sup>11</sup>:

- ◆ Excellent: 2.5 – 3
- ◆ Satisfactory: 2 – 2.5
- ◆ Partly Unsatisfactory: 1.5 – 2
- ◆ Unsatisfactory: 1 – 1.5

### **B. Financial Market Operations**

#### **1. Project Business Success**

A project's business success is evaluated relative to the related objectives established at approval and on the financial performance of the IIC-financed subprojects and their contribution to the company's profitability, financial condition, and development. Excellent: project objectives/expectations largely surpassed; performance indicators are in the top echelons of industry. Satisfactory: project objectives/expectations broadly

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<sup>11</sup> The four grades excellent, satisfactory, partly unsatisfactory and unsatisfactory correspond to the original "Environmental Risk Rating" methodology of good, average, watch and unsatisfactory.

achieved and performance indicators are not below industry averages. Partly unsatisfactory: one or more project objectives not met, with serious shortfalls in performance relative to industry. Unsatisfactory: most project objectives unlikely to be met, with material performance shortfalls.

## **2. Company Business Success**

The company's success is evaluated on the performance of the financial intermediary itself (including the agent bank in agency line projects and the fund manager in equity fund projects). It is rated on its performance to-date and its prospects as a sustainable, resilient, profitable, well-managed, domestically or internationally competitive, environmentally compliant intermediary.

## **3. Growth of Productive Private Enterprise**

Projects and subprojects rated on economic and financial profitability and growth prospects; pioneering attributes; transfer of skills or technology; resource allocation efficiency; impact on competition; demonstration effect; linkages; catalytic effects on other companies; financial markets development; impact on enabling environment, government policy and regulatory framework.

## **4. Growth of the Economy**

Rated on: whether subprojects financed with IIC funds are economically viable (for example, as reflected in ERR's or the financial portfolio performance combined with the absence of portfolio concentrations in protected industries); whether project has led to economic viability criteria in the company's investment decisions; and benefits to the economy.

## **5. Environmental Impact**

The same criteria are applied for subprojects as described above in the section "environmental impact" in non-financial operations.

## II. IIC INVESTMENT OUTCOME

The indicators for Investment Outcome are loan income and returns to equity. To assign the composite rating where IIC had both a loan and an equity investment, the rating is a synthesis of the separate ratings of the two investments. When both equity and loan having the same rating, the investment outcome rating is the same as the two indicator ratings. In other likely combination cases, the following guidelines should be used.

Investment Outcome rating for different gross contribution – loan and equity				
Loan Rating	Equity Rating			
	<b>E</b>	<b>S</b>	<b>PU</b>	<b>U</b>
<b>E</b>	E	E	S	S, PU or U <sup>12</sup>
<b>S</b>	E	S	S	PU or U <sup>13</sup>
<b>PU</b>	S	S	PU	PU or U
<b>U</b>			U	U

- E= Excellent. S= Satisfactory. PU= Partly Unsatisfactory. U= Unsatisfactory
- Weights: According to dollar amounts of IIC disbursed investment.

### 1. Loans

- ◆ Excellent: Fully performing projects and through “sweetener” expected to earn significantly more than the “without sweetener” paid as scheduled case.
- ◆ Satisfactory: (I) Loan expected to be paid as schedule. (II) Loan is prepaid and IIC has received at least 60% of the interest (net of pre-payment penalties received) expected over the original life of the loan. (III) Loan has been rescheduled and is expected to be paid as rescheduled with no loss to original expected income. (IV) IIC guarantee: all fees are expected to be paid and guarantee is not called or called but expected to be fully repaid in accordance with the terms of the guarantee agreement. (V) IIC Swap or other risk management facility: IIC has not suffered any loss and expects no loss due to non-performance of the swap counterparty.
- ◆ Partly unsatisfactory: (I) Loan is prepaid and IIC has received less than 60% of originally expected interest income (net of prepayment penalties received). (II) Loan has been rescheduled, or guarantee is called and in either case IIC expects to receive sufficient interest income to recover all its funding cost but less than the full dollar margin originally expected.
- ◆ Unsatisfactory: (I) Loan is in non-accrual status. (II) IIC has established specific loss reserves. (III) Loan has been rescheduled but we do not expect to receive at least 100% of its loan funding cost. (IV) Loan has been or is expected to be wholly or partially converted to equity in restructuring of a “problem project”. (V) IIC experiences a loss on its guarantee or risk management facility.

<sup>12</sup> S if weighted average of effective loan interest rate and equity IRR > FRR+zzz bp; U if < FR – zzz bp; otherwise PU

<sup>13</sup> PU if weighted average of FRR and equity IRR > FRR –zzz bp; otherwise, U



## 2. Equity

Excellent: nominal US\$ internal rate of return on equity (equity IRR) > FRR+8%.  
Satisfactory: equity IRR > FRR + 5%. Partly unsatisfactory: equity IRR > FRR+2%.  
Unsatisfactory: equity IRR<FR+2%, where FRR is the actual or notional fixed rate loan interest rate that was or would have been approved by IIC for the project financing. Calculate the nominal equity IRR (also called return on equity) and compare it to the projected equity IRR. Attach calculations and assumptions.

### III. IIC EFFECTIVENESS

IIC's effectiveness, based on four indicators, is rated on a four-point scale: excellent, satisfactory, partly unsatisfactory, unsatisfactory. Considering that IIC's ability to influence an operation is greatest between screening and disbursement, this synthesis rating reflects the overall value added by IIC at each stage of the operation to a country's development and to IIC's profitability. The effectiveness rating can be no lower than that the worst of the three indicators and no higher than that of the best indicator, and it is related to them according to the relative importance of each and the considerations that would favor assigning the next higher or the next lower rating.

The effectiveness rating should be ranked as follows:

- ◆ Excellent: IIC's performance was exemplary
- ◆ Satisfactory: IIC's performance was up to high professional standards
- ◆ Partly unsatisfactory: There was a material shortfall in at least one area.
- ◆ Unsatisfactory: There were shortfalls in several areas or one major shortfall in one area which led (or could have led) to a less than satisfactory development investment outcome.

#### 1. Screening, Appraisal and Structuring

With hindsight, how well did IIC perform in appraising and structuring the operation? Were there material variances from the appraisal assumptions about market, the sponsors, the enabling environment, and company performance prospects (including environmental) that, with due diligence should have been anticipated at screening and appraisal? Were material risks identified and did IIC mitigate them sufficiently?

Screening, Appraisal and Structuring should be rated as follows:

- ◆ Excellent: IIC front end work on this project can be used as a best practice example
- ◆ Satisfactory: If it met all of IIC procedures and good practice standards
- ◆ Partly Unsatisfactory: If there was a particular shortfall on one specific area.
- ◆ Unsatisfactory: If there were material shortfalls in several areas or a very obvious mistake in at least one major area.

## **2. Supervision and Administration**

How well did IIC address company reporting, supervise the project, detect emerging problems and respond expeditiously with effective interventions?

Supervision and Administration should be rated as follows:

- ◆ **Excellent:** The IIC was, at all times, fully informed about the project and company's performance in all material areas and used this knowledge proactively when needed to improve the situation of the project.
- ◆ **Satisfactory:** The IIC was sufficiently informed to react in timely manner to any material change in the project and company performance.
- ◆ **Partly unsatisfactory:** The IIC supervision was insufficient to monitor the project and company's performance and therefore the IIC was not able to act on a timely fashion.
- ◆ **Unsatisfactory:** The IIC missed some material developments of the project and did not use some available information to intervene before a crisis.

## **3. Role and Contribution**

In investing in the company and supervising the project, to what extent did IIC adhere to its corporate, country, and sector strategies and business principle, play a catalytic role, and make a special contribution? Was IIC timely and efficient, and was the client satisfied.

Apply the following guidelines to rate this project:

- ◆ **Excellent:** The IIC was essential for the project to go ahead and made a major contribution to its success.
- ◆ **Satisfactory:** IIC's role and contribution were in line with its operating principles.
- ◆ **Partly unsatisfactory:** IIC's role or contribution fell short in one material area.
- ◆ **Unsatisfactory:** IIC's role was not believable additional and the expected contribution was not forthcoming.

## **ANNEX 3**

# **IIC PORTFOLIO OF EARLY OPERATING MATURITY PROJECTS TO BE EVALUATED (as of February, 2001)**

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan		Outstanding		Risk
Project	Instr.	Sector	Apprv	Comt	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk	
Name					Disb.	18 Ms			Off										Classif.	
<b>ARGENTINA</b>																				
IMPSAT			Nov-90	Jan-92		yes				3,000	1,372	3,000	1,372		1,372	3,000				
TERMINAL6	Corporate		Dec-89	Jan-92		yes				1,000	0	1,000				1,000				
PRC-I	Corporate	Nonmetal Mining	Oct-90	Jan-92	May-94	yes		Apr-98		6,000	0	3,000	3,000	1,000		946	1,054	3,000	Doubtful	
PRC-II	Corporate	Nonmetal Mining	Dec-92			yes/d		Nov-95		3,000	0									
AGRO-INDUSTRY INC	Corporate		Dec-90	Jan-92		yes/d				4,000	1,000									
CERRO CASTILLO	Corporate		Dec-92	Aug-93		yes/d				2,000	0									
SAN MIGUEL	Corporate		Dec-91			yes/d		Nov-93		4,000	2,000									
PDP			Dec-91			yes/d		Oct-92		6,000	0									
PUERTO RAMALLO	Corporate		Oct-92			yes/d		Jun-93		6,000	1,000									
SAGEMULLER	Corporate	Diversified Agrobusiness	May-93	May-93	Aug-94	yes				4,600	0	4,600				3,163	1,437		Substandard	
SAGEMULLER-II	Corporate	Diversified Agrobusiness	Dec-95	Mar-96		yes				0	2,000		2,000		983			1,017	Doubtful	
FLEMING	Corporate	Health/Research	Aug-93	Aug-93	Feb-94	yes				5,000	0	5,000				647	4,353		Doubtful	
WILLMOR	Corporate	Other meat and poultry byproducts	Sep-93	Dec-93	Dec-93	yes				5,000	0	5,000				3,482	1,518		Doubtful	
PCR	Corporate	Oil and Gas Extract Extraction	Dec-93	Apr-94		yes				5,000	0	4,000	1,000		1,000	4,000				
ARGENTINA ADVENT			Dec-94			yes/d		Nov-98		0	2,100									
PASA	Corporate	Fertilizers	Feb-96	Aug-96	Aug-96	yes				5,000	0	5,000				2,250	2,750		Satisfactory B	
BUYATTI	Corporate	Vegetable Processing	May-96	Sep-96	Oct-96	yes				4,000	0	4,000				1,636	2,364		Substandard	
DOMINION NONWOVENS	Corporate	Other Mznufacturing Industries	Feb-97	May-97	Sep-97	yes		Dec-98		10,000	0	10,000		248		3,121	6,631		Satisfactory B	
HIDRONIHUIL	Corporate	Electric Power:Gas:Water.& Sewers	Jun-97	Jul-98	Dec-98	yes				10,000	0	10,000				1,000	9,000		Satisfactory B	
ARLEI	Corporate	Leather Tanning & Dying	Jun-98	Nov-98	Jul-00	no				8,000	0	8,000				696	7,304		Mentioned	
DESLER	Corporate	Environment-Waste Disp.& Treatm.	Dec-98	Mar-99	Aug-99	yes				6,640	0	6,640					4,179		Mentioned	
<b>Subtotals</b>										<b>98,240</b>	<b>9,472</b>	<b>69,240</b>	<b>7,372</b>	<b>1,248</b>	<b>3,355</b>	<b>24,941</b>	<b>40,590</b>	<b>4,017</b>		
<b>Intermediaries:</b>																				
GALICIA 1	Fin. Intermed.	Multi purpose Banking	Dec-92	Mar-93	Sep-93	yes				10,000	0					4,545	5,455		Satisfactory A	
GALICIA 1	Fin. Intermed.	Multi-Purpose Banking	Oct-98	Jan-99	Jun-99	yes				10,000	0	10,000					10,000		Satisfactory A	
VELOX/VINSA	Fin. Intermed.	Multi-Purpose Banking	Mar-93	Mar-93		yes				6,000	500	6,000	500		500	5,800	200		Mentioned	
BANCO MAYORISTA	Fin. Intermed.	Multi-Purpose Banking	Dec-93	Feb-94	Jun-94	yes		Dec-96		3,000	1,000	3,000	1,000		1,000	3,000				
BANCO RIO	Fin. Intermed.	Multi-Purpose Banking	Aug-99	Oct-99	Oct-99	yes				10,000	0	10,000					10,000		Satisfactory A	
<b>Subtotals</b>										<b>39,000</b>	<b>1,500</b>	<b>29,000</b>	<b>1,500</b>	<b>0</b>	<b>1,500</b>	<b>13,345</b>	<b>25,655</b>	<b>0</b>		
<b>TOTALS</b>										<b>137,240</b>	<b>10,972</b>	<b>98,240</b>	<b>8,872</b>	<b>1,248</b>	<b>4,855</b>	<b>38,286</b>	<b>66,245</b>	<b>4,017</b>		

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project Name	Instr.	Sector	Apprv	Comt	Last Disb.	Post 18 Ms	Drop	Cancel	Write Off	Loan	Equity	Loan	Equity	Loan	Equity	Repaid	Loan	Equity	Classif.

**BAHAMAS**

WATERFIELDS	Corporate	Electric power: Gas; Water & Sewers	Oct-96	May-97	May-97	yes				1,000	0					440	560		Satisfactory B
<b>Subtotals</b>										<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>440</b>	<b>560</b>	<b>0</b>	
<b>Intermediaries:</b>																			
<b>Subtotals</b>										<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>TOTALS</b>										<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>440</b>	<b>560</b>	<b>0</b>	

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		
Project	Instr.	Sector	Apprv	Comt.	Last	18	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk
Name					Disb.	Mths			Off										Classif.

**BOLIVIA**

TAHUAMANU	Corporate	Tropical Foods Processing	Mar-94	Apr-94	Jan-96	yes				1,600	0					686	914		Satisfactory B
TIERRA	Corporate	Nonmetal mining	Jun-91	Jan-92		yes			Nov-95	1,600	0	1,600		1,600					
MEY LTDA.	Corporate		Nov-92			yes/d	Jan-94			3,700	0								
<b>Subtotals</b>										<b>6,900</b>	<b>0</b>	<b>1,600</b>	<b>0</b>	<b>1,600</b>	<b>0</b>	<b>686</b>	<b>914</b>	<b>0</b>	

Intermediaries:																			
BANCO BISA	Fin. Intermed.	Commercial Banking	May-99	Aug-99	Sep-99	yes				10,000	0	10,000					10,000		Satisfactory B
BANCO ECONOMICO	Fin. Intermed.	Multi-Purpose Banking	Jun-98	Sep-98	Sep-99	yes				7,000	0	7,000					182	6,818	Mentioned
BANCO MERCANTIL	Fin. Intermed.	Multi-Purpose Banking	Jan-99	Mar-99	Mar-00	no				10,000	0	10,000					770	9,230	Mentioned
BBA	Fin. Intermed.	Multi-Purpose Banking	Dec-91	Mar-92		yes		Mar-94		6,000	0	6,000		178			5,822		
BANCOSOL	Fin. Intermed.	Microbanks	Dec-90	Jan-92		yes				0	1,325		1,325		1,325				
BHN	Fin. Intermed.	Multi-Purpose Banking	Dec-91	Mar-92		yes				8,000				1,120			6,880		
BISA	Fin. Intermed.	Multi-Purpose Banking	Jul-98	Sep-98	Dec-98	yes													
<b>Subtotals</b>										<b>41,000</b>	<b>1,325</b>	<b>33,000</b>	<b>1,325</b>	<b>1,298</b>	<b>1,325</b>	<b>13,654</b>	<b>26,048</b>	<b>0</b>	
<b>TOTALS</b>										<b>47,900</b>	<b>1,325</b>	<b>34,600</b>	<b>1,325</b>	<b>2,898</b>	<b>1,325</b>	<b>14,340</b>	<b>26,962</b>	<b>0</b>	

COUNTRY			KEY DATES								Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv.	Comt.	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk	
Name					Disb.	18 Ms			Off										Classif.	

### BRAZIL

SANTHER	Corporate	Paper, Paper prds., Publishing	Apr-93	Sep-93	Apr-97	yes				8,000	0	8,000				4,667	3,333		Satisfactory B
INJEPET	Corporate	Petroleum-based, Rubber and Plast	Dec-97	Mar-98	Apr-98	yes				8,000	0	8,000				1,714	6,286		Mentioned
AURORA	Corporate	Temperate-zone Fruits Processing	Nov-92	Nov-92	Jan-95	yes		May-97		6,500	0	6,500		6,500					
ENGEMIAQ	Corporate	Electronics and Precision Instr.	Oct-90	Jan-92	Jan-92	yes		Jul-93	Jun-96	3,500	1,000	3,500	1,000	3,500	1,000				
PARANA CITRUS S.A.	Corporate	Citrus Fruits Processing	Jun-92	Dec-92	Oct-94	yes		Jul-93	Jun-99	8,000	0	8,000		8,000					
PROMIAR	Corporate	Fishing	May-93	May-93	Aug-94	yes													
JANAUBA	Corporate		Oct-90			yes/d	Mar-91			2,000	500								
AVIC	Corporate	Poultry Prod. and Packing	Feb-91	Jan-92		yes					2,000		2,000		2,000				
<b>Subtotals</b>										<b>36,000</b>	<b>3,500</b>	<b>34,000</b>	<b>3,000</b>	<b>18,000</b>	<b>3,000</b>	<b>6,381</b>	<b>9,619</b>	<b>0</b>	

#### Intermediaries:

LEASECORP	Fin. Intermed.	Leasing Companies	Dec-98	Apr-99		no				8,000	0	8,000					4,185		Satisfactory A
SFI	Fin. Intermed.	Specialized Fin. Service	Aug-00			no				1,000	0								
BANCO SANTOS	Fin. Intermed.	Fin.	Jan-01			no				10,000	0								
CREDIBANCO	Fin. Intermed.	Fin. Intermed.	Mar-97			yes/d	May-98			10,000	0								
BANCO INDUSTRIAL	Fin. Intermed.	Commercial Banking	Oct-98	Dec-98		no	Dec-00			8,000	0	8,000		6,900		469	631		Satisfactory A
BCN	Fin. Intermed.	Multi-purpose Banking	Dec-94	Sep-95	Oct-95	yes				6,000	0	6,000				3,000	3,000		Satisfactory A
BMC	Fin. Intermed.	Multi-purpose Banking	Dec-91	Mar-92		yes				8,000	0	8,000		1,120		6,880			Satisfactory A
BRAZILIAN MORTGAGES	Fin. Intermed.	Capital Markets	Aug-00	Oct-00		no				10,500	0	10,500					500		Satisfactory A
ITAMARATI	Fin. Intermed.	Leasing Companies	Sep-92	Dec-92		no													
<b>Subtotals</b>										<b>32,500</b>	<b>0</b>	<b>32,500</b>	<b>0</b>	<b>8,020</b>	<b>0</b>	<b>10,349</b>	<b>4,131</b>	<b>0</b>	

#### Equity Funds:

BRAZILIAN EQUITY	Equity Fund	Portfolio Investment Fund	Sep-95	Sep-95	Sep-95	yes				0	5,000		5,000		542			4,458	Mentioned
BOZANO	Equity Fund	Private Equity Fund	Jun-96	Jul-96	Jul-96	yes					4,000		3,963					3,963	Substandard
MG-FIEE	Equity Fund	Private Equity Fund	Oct-97	Nov-97	Aug-99	yes		Nov-00		0	4,000		4,000		3,902			98	Substandard
CADERI	Equity Fund	Venture Capital	Nov-89	Jan-92	Jul-95	yes		Mar-97		0	2,000		2,000		1,094			906	Doubtful
<b>Subtotals</b>										<b>0</b>	<b>15,000</b>	<b>0</b>	<b>14,963</b>	<b>0</b>	<b>5,538</b>	<b>0</b>	<b>0</b>	<b>9,425</b>	
<b>TOTALS</b>										<b>68,500</b>	<b>18,500</b>	<b>66,500</b>	<b>17,963</b>	<b>26,020</b>	<b>8,538</b>	<b>16,730</b>	<b>13,750</b>	<b>9,425</b>	

COUNTRY			KEY DATES								Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv	Comt	Last	18	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Classif.	
Name					Disb.	Mths			Off											

**CHILE**

INVERTEC	Corporate	Fishing	Oct-96	Mar-97	Dec-99	yes		Aug-97		5,000	5,000	5,000	5,000			1,375	3,625	5,000	Satisfactory
INVERTEC FOODS	Corporate	Temperate-zone Fruits Processing	Oct-99	Dec-99	Jun-00	no				5,000	0	5,000					5,000		Satisfactory
AYSSEN	Corporate	Wood, Cork, Straw Production; Furnit.	Dec-91	Aug-92	May-93	yes				1,500	384	1,500	384		384	1,350	150		Mentione
CMI	Corporate	Hatcheries and Aquaculture	Dec-90	Jan-92		yes				1,848	842	1,848	842			1,848			
TRIPESCA	Corporate	Fish Processing	Dec-92	Jan-94		yes		Oct-97		6,000	1,000	6,000	1,000		1,000	6,000			
MINERA YOLANDA	Corporate	Nonmetal mining	Mar-93	Mar-93		yes			Jun-99	7,000	2,000	7,000	2,000	2,990	2,000	4,010			
CMI II	Corporate	Hatcheries and Aquaculture	Oct-93			yes/d		Jun-94		1,000									
FAPACA	Corporate	Paper, Paper Prod., Furnishing	Dec-90	Jan-92		yes/c		Dec-92		5,000	0	5,000		5,000					
<b>Subtotals</b>										<b>32,348</b>	<b>9,226</b>	<b>31,348</b>	<b>9,226</b>	<b>7,990</b>	<b>3,384</b>	<b>14,583</b>	<b>8,775</b>	<b>5,000</b>	

**Intermediaries:**

DELTA LEASING	Fin. Intermed.	Leasing Companies	Feb-00	Apr-00		no				7,000	1,000	7,000	1,000				2,415	1,000	Satisfactory
BANCO DEL DESARROLLO	Fin. Intermed.	Agency-Multisector	Aug-00			no				10,000	0								
<b>Subtotals</b>										<b>17,000</b>	<b>1,000</b>	<b>7,000</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,415</b>	<b>1,000</b>	

**Equity Funds:**

NEGOCIOS REGIONALES	Equity Fund		Dec-00			no					4,000								
<b>Subtotals</b>										<b>0</b>	<b>4,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>TOTALS</b>										<b>49,348</b>	<b>14,226</b>	<b>38,348</b>	<b>10,226</b>	<b>7,990</b>	<b>3,384</b>	<b>14,583</b>	<b>11,190</b>	<b>6,000</b>	



COUNTRY			KEY DATES								Approved		Committed		Can/Sold/Woff		Loan		Outstanding		Risk
Project Name	Instr.	Sector	Apprv	Comt	Last Disb.	Post 18 Ms	Drop	Cancel	Write Off	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk Classif.		

**COLOMBIA**

INPSAT/ COLOMBIA	Corporate	Telecommunicatio ns	Des92	Mar-94	Sep-94	yes				8,000	0	8,000	0			7,636	364		Satisfactory B	
EL GALIVAN	Corporate	Cars&Trucks.Trail ers.Transp.Equip	Dec-92	Jun-93		yes				1,915	550	1,915	550			93	1,822	550	Doubtful	
LAMITECH (Colissin)	Corporate	Petroleum based, rubber&plastic pr.	Aug-93	Oct-93		yes				4,300	0	4,300				4,300				
<b>Subtotals</b>										<b>14,215</b>	<b>550</b>	<b>14,215</b>	<b>550</b>	<b>0</b>	<b>0</b>	<b>12,029</b>	<b>2,186</b>	<b>550</b>		
<b>Intermediaries:</b>																				
LEASING BOLIVAR	Fin. Intermed.	Leasing Company	Nov-97	Jan-98	Jan-98	yes				0	6,000								4,169	Satisfactory B
LEASING COLMENA	Fin. Intermed.	Leasing Company	Dec-93	Sep-94		yes		Nov-97		3,000	0	3,000		646		2,354				
CFD	Fin. Intermed.	Development Finance Comp.	Dec-91	Apr-92	May-92	yes		Mar-95		0	3,000		3,000		2,997					
<b>Subtotals</b>										<b>3,000</b>	<b>9,000</b>	<b>3,000</b>	<b>3,000</b>	<b>646</b>	<b>2,997</b>	<b>2,354</b>	<b>0</b>	<b>4,169</b>		
<b>TOTALS</b>										<b>17,215</b>	<b>9,550</b>	<b>17,215</b>	<b>3,550</b>	<b>646</b>	<b>2,997</b>	<b>14,383</b>	<b>2,186</b>	<b>4,719</b>		

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv	Comt	Last	Post	Drop	Cancel	Write	Loan	Equity	Loan	Equity	Loan	Equity	Repaid	Loan	Equity	Classi
Name					Disb.	18 Ms			Off										

### COSTA RICA

CONDICEL	Corporate	Telecommunicatio ns	Feb-00	May-00		no				4,200	0	4,000					2,821		Satisfacto
CONELECTRIC AS	Corporate	Elec.power:Gas:W ater&Sewers	Dec-94	Mar-96	Nov-97	yes				3,000	0	3,000				1,213	1,787		Satisfacto
PLATANAR	Corporate	Elec.power:Gas:W ater&Sewers	Dec-93	May-94	Jul-95	yes				6,000	0					3,235	2,765		Satisfacto
GUANACASTE	Corporate	Hotels&Rest..Leais ure&Cult.Act.	Dec-92	Mar-94	Oct-96	yes				8,000	0	8,000				2,857	5,143		Mention
ZF METROPOL ITANA	Corporate		Apr-92			yes/d	Jan-93			2,500	1,000								
<b>Subtotals</b>										<b>23,700</b>	<b>1,000</b>	<b>15,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,305</b>	<b>12,516</b>	<b>0</b>	

Intermediaries:																			
BANCO INTERFIN. S.A.	Fin. Intermed.	Multi-purpose Banking	May-98	Aug-98	Aug-00	no				6,000	0	6,000				545	5,455		Satisfacto
BANCO INTER FIN (B Loan)	Fin. Intermed.	Multi-purpose Banking	Dec-00			no				0	0								
BANEX/CR	Fin. Intermed.	Multi-purpose Banking	Jul-92	Dec-92	Feb-95	yes				3,000	500	3,000	500		500	2,200	800		Satisfacto
IMPROSA	Fin. Intermed.	Multi-purpose Banking	Oct-00	Dec-00		no				6,000	0	6,000							
PICSA	Fin. Intermed.	Multi-purpose Banking	Nov-91	May-92		yes/c		Dec-92		5,000	0	5,000		5,000					
<b>Subtotals</b>										<b>20,000</b>	<b>500</b>	<b>20,000</b>	<b>500</b>	<b>5,000</b>	<b>500</b>	<b>2,745</b>	<b>6,255</b>	<b>0</b>	

### TOTALS

<b>43,700</b>	<b>1,500</b>	<b>35,000</b>	<b>500</b>	<b>5,000</b>	<b>500</b>	<b>10,050</b>	<b>18,771</b>	<b>0</b>	
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COUNTRY			KEY DATES								Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Appr	Comt	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk	
Name					Disb.	18 Ms			Off										Classif.	

**DOMINICAN REPUBLIC**

ZF SAN ISIDRO	Corporate	Ind. Parks & Free Trade Zones	Jan-90	Jan-92		yes			Apr-93		3,000	0	3,000		1,580		1,420			
HAINAMOSIA	Corporate	Ind. Parks & Free Trade Zones	Apr-99	Nov-99		yes/c			Feb-00		4,550	0	4,550		4,550					
<b>Subtotals</b>											<b>7,550</b>	<b>0</b>	<b>7,550</b>	<b>0</b>	<b>6,130</b>	<b>0</b>	<b>1,420</b>	<b>0</b>	<b>0</b>	

**Intermediaries:**

POPULAR AGENCY LINE	Fin. Intermed.	Agency Lines	Dec-00			no					15,000	0								
POPULAR	Fin. Intermed.	Multi-purpose Banking	Dec-00	Dec-00		no					10,000	0	10,000							
BANCO MERCANTIL	Fin. Intermed.	Multi-purpose Banking	Jun-94	Oct-94	Nov-96	yes			Jan-98		3,500	0	3,500		2,000		955	545		Mentioned
BANCREDITO	Fin. Intermed.	Multi-purpose Banking	Aug-98	Oct-98	Oct-99	yes					7,500	0	7,500				682	6,818		Mentioned
INTERCONTINENTAL	Fin. Intermed.	Multi-purpose Banking	Aug-92	Feb-93		yes					4,000	0	4,000				3,273	727		Mentioned
INTERCONTINENTAL	Fin. Intermed.	Multi-purpose Banking	Nov-96	Jun-97	Aug-98	yes			Aug-98		3,000	0	3,000		500		588	1,912		Mentioned
<b>Subtotals</b>											<b>43,000</b>	<b>0</b>	<b>28,000</b>	<b>0</b>	<b>2,500</b>	<b>0</b>	<b>5,498</b>	<b>10,002</b>	<b>0</b>	
<b>TOTALS</b>											<b>50,550</b>	<b>0</b>	<b>35,550</b>	<b>0</b>	<b>8,630</b>	<b>0</b>	<b>6,918</b>	<b>10,002</b>	<b>0</b>	

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		
Project	Instr.	Sector	Apprv	Comt	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk
Name					Disb.	18 Ms			Off										Classif.

### ECUADOR

ECUAPLANTATION	Corporate	Tropical Foods Processing	Oct-93	Oct-93	Jul-98	yes				2,100	0	2,100				655	1,445		Substandard
ERSA	Corporate	Agribusiness/Agriculture	Dec-00			no				8,000	0								
CARTOPEL	Corporate	Paper, Paper Products	Dec-90	Jan-92		yes				2,000	0	2,000							
SOLUBEL	Corporate	Food & Beverage Products	Nov-90	Jan-92		yes		Dec-95		900	900	900	900		900	900			
SOLUBEL II	Corporate	Food & Beverage Products	Dec-93	May-94		yes/e		Sep-94		1,000	600	1,000	600	1,000	600				
CTH	Corporate		Dec-98			no	May-99			5,000	0								
<b>Subtotals</b>										<b>19,000</b>	<b>1,500</b>	<b>6,000</b>	<b>1,500</b>	<b>1,000</b>	<b>1,500</b>	<b>1,555</b>	<b>1,445</b>	<b>0</b>	

#### Intermediaries:

FINAGRO	Fin. Intermed.	Multipurpose Banking	Jul-92	Sep-92	Jun-95	yes		Jun-95	Dec-99	2,000	1,000	2,000	1,000	364	1,000	1,636			
BANCO PROGRESO	Fin. Intermed.	Multipurpose Banking	Aug-98			no	Apr-99			10,000	0								
<b>Subtotals</b>										<b>12,000</b>	<b>1,000</b>	<b>2,000</b>	<b>1,000</b>	<b>364</b>	<b>1,000</b>	<b>1,636</b>	<b>0</b>	<b>0</b>	
<b>TOTALS</b>										<b>31,000</b>	<b>2,500</b>	<b>8,000</b>	<b>2,500</b>	<b>1,364</b>	<b>2,500</b>	<b>3,191</b>	<b>1,445</b>	<b>0</b>	

COUNTRY			KEY DATES								Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk Classif.
Project Name	Instr.	Sector	Apprv	Comt.	Last Disb.	Post 18 Ms	Drop	Cancel	Write Off	Loan	Equity	Loan	Equity	Loan	Equity	Repaid	Loan	Equity		

**EL SALVADOR**

SIGMA	Corporate	Paper:Paper Products:Publishing	Apr-94	Nov-94	Dec-95	yes				4,000	0	4,000					3,273	727		Satisfactory A	
BON APPETIT	Corporate	Food & Beverage Products	Nov-96	Sep-97	Nov-97	yes				0	2,000		2,000						2,000	Substandard	
<b>Subtotals</b>										<b>4,000</b>	<b>2,000</b>	<b>4,000</b>	<b>2,000</b>	<b>0</b>	<b>0</b>	<b>3,273</b>	<b>727</b>	<b>2,000</b>			

Intermediaries:																				
BANCO HIPOTECARIO	Fin. Intermed.		Dec-97			no	Feb-99				0	2,500								
<b>Subtotals</b>										<b>0</b>	<b>2,500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTALS</b>										<b>4,000</b>	<b>4,500</b>	<b>4,000</b>	<b>2,000</b>	<b>0</b>	<b>0</b>	<b>3,273</b>	<b>727</b>	<b>2,000</b>		



COUNTRY			KEY DATES								Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project Name	Instr.	Sector	Apprv.	Comt.	Last Disb.	Post 18 Ms	Drop	Cancel	Write Off	Loan	Equity	Loan	Equity	Loan	Equity	Repaid	Loan	Equit	Classif.	

**GUYANA**

GFI	Corporate	Wood,Cork&Straw Products:Furn.	Nov-91	Apr-92	Nov-94	yes			Jun-99	800	0	800		284		516			
KAYMAN SANKAR	Corporate	Grain Products and Packing	Oct-92	Jan-93		yes/c		Jul-93		2,500	0	2,500		2,500					
<b>Subtotals</b>										<b>3,300</b>	<b>0</b>	<b>3,300</b>	<b>0</b>	<b>2,784</b>	<b>0</b>	<b>516</b>	<b>0</b>	<b>0</b>	

<b>Intermediaries:</b>																			
<b>Subtotals</b>										<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTALS</b>										<b>3,300</b>	<b>0</b>	<b>3,300</b>	<b>0</b>	<b>2,784</b>	<b>0</b>	<b>516</b>	<b>0</b>	<b>0</b>	

COUNTRY			KEY DATES								Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv.	Comt.	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Classif.	
Name					Disb.	18 Ms			Off											

## HONDURAS

ZIP BUENA VISTA	Corporate	Industrial Parks & Free Trade Zone	Jan-00	Mar-00	Dec-00	no				7,500	0						7,500		Satisfactory A
ZIP CHOLOMA	Corporate	Industrial Parks & Free Trade Zone	Oct-90	Oct-92		yes				2,500	0	2,500				2,500			
ZIP CHOLOMA II	Corporate	Industrial Parks & Free Trade Zone	Dec-97	Feb-98	Jun-98	yes				1,500	0	1,500					1,500		Satisfactory A
LUFUSSA	Corporate		Sep-98	May-99		no				10,000	0								
ZIP BUFALO	Corporate	Industrial Parks & Free Trade Zone	Dec-91	Jun-92		yes/c		Sep-92		4,900	1,000	4,900	1,000	4,900	1,000				
DEL TROPICO	Corporate	Base Metal & Metal Products: Mach.	Dec-00			no				3,000	0								
<b>Subtotals</b>										<b>29,400</b>	<b>1,000</b>	<b>8,900</b>	<b>1,000</b>	<b>4,900</b>	<b>1,000</b>	<b>2,500</b>	<b>9,000</b>	<b>0</b>	

**Intermediaries:**

A	FICENSA	Fin. Intermed.	Muliti-purpose Banking	Dec-99	Apr-00		no			4,000	0	4,000	0						Satisfactory A
A	BGA (formerly BANCAHSA)	Fin. Intermed.	Muliti-purpose Banking	Dec-93	May-94	Jun-98	yes			3,500	0	3,500				2,147	1,353		Satisfactory A
B	BGA II	Fin. Intermed.	Muliti-purpose Banking	Sep-99	Feb-00		no			7,000	0	7,000					1,250		Satisfactory B
A	BANCO FICOHSA	Fin. Intermed.	Muliti-purpose Banking	Jan-99	Mar-99		no	Dec-00		7,000	0	7,000		2,416		1,584	3,000		Mentioned
<b>Subtotals</b>										<b>21,500</b>	<b>0</b>	<b>21,500</b>	<b>0</b>	<b>2,416</b>	<b>0</b>	<b>3,731</b>	<b>5,603</b>	<b>0</b>	
<b>TOTALS</b>										<b>50,900</b>	<b>1,000</b>	<b>30,400</b>	<b>1,000</b>	<b>7,316</b>	<b>1,000</b>	<b>6,231</b>	<b>14,603</b>	<b>0</b>	



COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		
Project Name	Instr.	Sector	Apprv.	Comt.	Last Disb.	Post 18Ms	Drop	Cancel	Write Off	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk Classif.

## JAMAICA

BELVEDERE	Corporate	Tropical Fruits Production	Aug-93	Dec-93		yes/d		May-96		2,700	0	2,700		2,700					
CIBONEY VILLAS	Corporate		Dec-90			yes/d	Jul-91			4,600	0								
<b>Subtotals</b>										<b>7,300</b>	<b>0</b>	<b>2,700</b>	<b>0</b>	<b>2,700</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

### Intermediaries:

CITIZENS BANK EMB	Fin. Intermed.	Multi-purpose Banking	Dec-94	Feb-95		yes		Feb-97		4,000	0	4,000		3,441		559			
	Fin. Intermed.	Multi-purpose Banking	Apr-93	May-93		yes				5,000	0	5,000				5,000			
<b>Subtotals</b>										<b>9,000</b>	<b>0</b>	<b>9,000</b>	<b>0</b>	<b>3,441</b>	<b>0</b>	<b>5,559</b>	<b>0</b>	<b>0</b>	

### Equity Funds:

JAMAICA PRODUCTIONS	Equity Fund		Aug-93	Dec-93		yes/c		Jan-97		0	1,518		1,518		1,518				
<b>Subtotals</b>										<b>0</b>	<b>1,518</b>	<b>0</b>	<b>1,518</b>	<b>0</b>	<b>1,518</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>TOTALS</b>										<b>16,300</b>	<b>1,518</b>	<b>11,700</b>	<b>1,518</b>	<b>6,141</b>	<b>1,518</b>	<b>5,559</b>	<b>0</b>	<b>0</b>	

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv.	Comt.	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Classi
Name					Disb.	18 Ms			Off										

**MEXICO**

ALMER	Corporate	Warehousing	Sep-00	Nov-00		no				10,000	0	10,000							Satisfacto
CHRISTIANSO N	Corporate	Chemicals & Pharmaceuticals	Sep-91	Jan-92		yes				3,200	0	3,200				3,200			Substand
CHRISTIANSO N II	Corporate	Chemicals & Pharmaceuticals	Jul-96	Sep-96		yes		Nov-96		655	1,500	655	1,500		1,500	655			Substand
HOSPITAL ABC	Corporate	Health Services	Apr-00			no				10,000	0								
ACUICOLAS COIN ERA	Corporate	Hatcheries and Aquaculture	Nov-93	Apr-94	Dec-95	yes		Mar-97	Aug-98	2,383	727	2,383	727	2,383	727				
VERSAGRUP	Corporate	Other Manufacturing Industries	Sep-91	Mar-92	May-96	yes			Jun-00										
			Nov-90	Jan-92		yes		Jul-93	Jun-97	4,500	0	4,500		3,199		1,301			
<b>Subtotals</b>										<b>30,738</b>	<b>2,227</b>	<b>20,738</b>	<b>2,227</b>	<b>5,582</b>	<b>2,227</b>	<b>5,156</b>	<b>0</b>	<b>0</b>	

Intermediaries:																			
BAJIO	Fin. Intermed.	Multi-purpose Banking	Sep-99	Nov-99		no				6,000	0	6,000					922		
FICEN	Fin. Intermed.	Non-regulated Fis	Dec-94	Jun-95	Jan-98	yes		Jan-99		2,000	900	2,000	900		614	909	1,091	286	Mention
BANCEN	Fin. Intermed.	Leasing Companies	Dec-92	Feb-94		yes		Feb-96		10,000	0	10,000		2,497		7,503			
SERFIN	Fin. Intermed.	Multi-purpose Banking	Jan-90	Jan-92		yes		Dec-93		5,500	0	5,500		625		4,875			
<b>Subtotals</b>										<b>23,500</b>	<b>900</b>	<b>23,500</b>	<b>900</b>	<b>3,122</b>	<b>614</b>	<b>13,287</b>	<b>2,013</b>	<b>286</b>	

Equity Funds:																			
BPEF I	Equity Fund		Jun-97	Oct-97		no				0	10,285		9,540		184			8,073	Satisfacto
MULTINDFUND	Equity Fund		May-00	Jun-00		no				0	8,000	0	8,000						Satisfacto
OPCAP	Equity Fund		Nov-91	Mar-92	Jun-93	yes		Jun-93		0	3,010		3,010		2,249			761	Satisfacto
MPEF	Equity Fund		Dec-96	Sep-97	Aug-00	no													
<b>Subtotals</b>										<b>0</b>	<b>21,295</b>	<b>0</b>	<b>20,550</b>	<b>0</b>	<b>2,433</b>	<b>0</b>	<b>0</b>	<b>8,834</b>	

<b>TOTALS</b>										<b>54,238</b>	<b>24,422</b>	<b>44,238</b>	<b>23,677</b>	<b>8,704</b>	<b>5,274</b>	<b>18,443</b>	<b>2,013</b>	<b>9,120</b>	
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COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv.	Comt.	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk
Name					Disb.	18 Ms			Off										Classif.

**NICARAGUA**

CIT (HOLIDAY INN)	Corporate	Hotels & Rest.: Leisure & Cult. Act.	Dec-97	Nov-98	Oct-00	no				5,100	0	5,100				10	5,090		Satisfactory B
CAMPA	Corporate	Hatcheries and Aquaculture	Dec-92	Dec-92	May-95	yes				1,000	-400	1,000	-400			1,000		-400	Mentioned
<b>Subtotals</b>										<b>6,100</b>	<b>-400</b>	<b>6,100</b>	<b>-400</b>	<b>0</b>	<b>0</b>	<b>1,010</b>	<b>5,090</b>	<b>-400</b>	

**Intermediaries:**

BANEXPO	Fin. Intermed.	Muliti-purpose Banking	Dec-99	Dec-99		no				5,000	0	5,000					1,850		Satisfactory B
BANCENTRO	Fin. Intermed.	Muliti-purpose Banking	Dec-92	Feb-94		yes		Dec-99		3,300	0	3,300				3,300			
BANCENTRO II	Fin. Intermed.	Muliti-purpose Banking	Oct-99	Dec-99		no				6,000	0	6,000					4,220		Mentioned
BANCO MERCANTIL/N	Fin. Intermed.	Muliti-purpose Banking	Dec-91	Mar-92		yes		Jun-94		2,000	1,000	2,000	1,000		1,000	2,000			
FINCACIERA DELTA-NICAR	Fin. Intermed.		Sep-98			no	Jan-00			4,000	0								
<b>Subtotals</b>										<b>20,300</b>	<b>1,000</b>	<b>16,300</b>	<b>1,000</b>	<b>0</b>	<b>1,000</b>	<b>5,300</b>	<b>6,070</b>	<b>0</b>	
<b>TOTALS</b>										<b>26,400</b>	<b>1,400</b>	<b>22,400</b>	<b>1,400</b>	<b>0</b>	<b>1,000</b>	<b>6,310</b>	<b>11,160</b>	<b>-400</b>	

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		
Project	Instr.	Sector	Apprv.	Comt.	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Risk
Name					Disb.	18 Ms			Off										Classif.

**PANAMA**

COFISESA (MELO)	Corporate	Other Manuf. Ind.	Jun-98	Apr-99		no				6,528	0	6,528					5,600		Satisfactory A
<b>Subtotals</b>										<b>6,528</b>	<b>0</b>	<b>6,528</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,600</b>	<b>0</b>	

Intermediaries:																			
FINANCIERA DELTA	Fin. Intermed.	Non-regulated Fis	Aug-93	Nov-93	Apr-96	yes				3,000	0	3,000				2,455	545		Satisfactory B
FINANCIERA DELTA II	Fin. Intermed.	Non-regulated Fis	Dec-98	Apr-99	Nov-00	no				4,000	0	4,000					4,000		Satisfactory B
<b>Subtotals</b>										<b>7,000</b>	<b>0</b>	<b>7,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,455</b>	<b>4,545</b>	<b>0</b>	
<b>TOTALS</b>										<b>13,528</b>	<b>0</b>	<b>13,528</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,455</b>	<b>10,145</b>	<b>0</b>	

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan		Outstanding		Risk
Project Name	Instr.	Sector	Apprv.	Comt.	Last Disb.	Post 18 Ms	Drop	Cancel	Write Off	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Classif.	

**PARAGUAY**

MERCO FLUVIAL	Corporate	Land Transport.: Pipelines:	Dec-96	Mar-97	Jun-97	yes				3,000	0	3,000					1,875	1,125		Mentioned
PARALEVA	Corporate		Oct-96			yes/d	Jan-97			2,500	0									
<b>Subtotals</b>										<b>5,500</b>	<b>0</b>	<b>3,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,875</b>	<b>1,125</b>	<b>0</b>		

Intermediaries:																					
BAPSA	Fin. Intermed.	Multi-purpose Banking	Apr-91	Sep-92		yes		May-96		4,000	0	4,000		263		3,738				Mentioned	
BAPSA II	Fin. Intermed.	Multi-purpose Banking	Nov-99	Dec-99		no				7,500	0	7,500					6,601			Mentioned	
MULTIBANCO	Fin. Intermed.	Multi-purpose Banking	Dec-98	Feb-99	Sep-00	no				5,000	0	5,000					5,000			Mentioned	
<b>Subtotals</b>										<b>16,500</b>	<b>0</b>	<b>16,500</b>	<b>0</b>	<b>263</b>	<b>0</b>	<b>3,738</b>	<b>11,601</b>	<b>0</b>			
<b>TOTALS</b>										<b>22,000</b>	<b>0</b>	<b>19,500</b>	<b>0</b>	<b>263</b>	<b>0</b>	<b>5,613</b>	<b>12,726</b>	<b>0</b>			



COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv.	Comit	Last	Post	Drop	Cancel	Write	Loan	Equity	Loan	Equity	Loan	Equity	Repaid	Loan	Equity	Risk
Name					Disb.	Months			Off										Classif.

**TRINIDAD & TOBAGO**

MORA	Corporate	Oil and Gas Extract Extraction	Dec-96	Jun-97		yes				2,500	1,500	2,500		2,500					Doubtful
TILECO	Corporate		Aug-90			yes/d	Jun-91			2,500	700								
<b>Subtotals</b>										<b>5,000</b>	<b>2,200</b>	<b>2,500</b>	<b>0</b>	<b>2,500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

Intermediaries:																			
DFL	Fin. Intermed.	Development Finance Company	Jan-91	Jan-92	Jul-93	yes		Jul-94	2,500	600	2,500	598	783		1,717		598	Satisfactory	
REPUBLIC	Fin. Intermed.	Commercial Banking	May-99	Jul-99		no			10,000	0	10,000					5,390		Satisfactory	
<b>Subtotals</b>										<b>12,500</b>	<b>600</b>	<b>12,500</b>	<b>598</b>	<b>783</b>	<b>0</b>	<b>1,717</b>	<b>5,390</b>	<b>598</b>	
<b>TOTALS</b>										<b>17,500</b>	<b>2,800</b>	<b>15,000</b>	<b>598</b>	<b>3,283</b>	<b>0</b>	<b>1,717</b>	<b>5,390</b>	<b>598</b>	

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv.	Comt.	Last	Post	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Classif.
Name					Disb.	18 Ms			Off										

**URUGUAY**

GRALADO	Corporate	Land transportation: Pipelines: Air T.	Dec-92	Jan-93	Oct-96	yes				4,500	300	4,500	300		300	3,750	750		Satisfactory A
UDEMAN	Corporate	Transportation. Storage & Comm.	Jun-00	Jun-00		no				5,000	0	5,000					3,000		Satisfactory A
ZF MONTEVIDEO	Corporate	Industrial Parks	Dec-91	Mar-92		yes				3,400	875	3,400	875		875	3,400			
GRANJA MORO	Corporate	Poultry Prod. and Packing	May-91	Jan-92	Mar-97	yes		Jan-92	Jun-00	2,500	1,000	2,500	1,000	1,140	1,000	1,360			
MIGRANJA	Corporate	Temperate Zone Fruits production	Dec-89	Jan-92	Jul-96	yes			Sep-99	3,287	1,000	3,287	1,000	1,772	1,000	1,515			
UNION STAR	Corporate	Other Manuf. Ind.	Sep-91	Mar-92	Sep-96	yes		Jun-97	Jun-97	5,400	1,000	5,250	1,150	5,250	1,150				
<b>Subtotals</b>										<b>24,087</b>	<b>4,175</b>	<b>23,937</b>	<b>4,325</b>	<b>8,162</b>	<b>4,325</b>	<b>10,025</b>	<b>3,750</b>	<b>0</b>	
<b>Intermediaries:</b>																			
BANCO MONTEVIDEO	Fin. Intermed.	Agency - Multisector	Oct-99			no				14,100	0								
SURINVEST	Fin. Intermed.	Multi-purpose Banking	Sep-92	Nov-92		yes				6,000	0	6,000				6,000			
TIRLEY	Fin. Intermed.	Agency - Multisector	Oct-00	Oct-00		no				900	0	900					100		
<b>Subtotals</b>										<b>21,000</b>	<b>0</b>	<b>6,900</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,000</b>	<b>100</b>	<b>0</b>	
<b>TOTALS</b>										<b>45,087</b>	<b>4,175</b>	<b>30,837</b>	<b>4,325</b>	<b>8,162</b>	<b>4,325</b>	<b>16,025</b>	<b>3,850</b>	<b>0</b>	



COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk Classif.
Project Name	Instr.	Sector	Apprv.	Comt.	Last Disb.	Post 18 Ms	Drop	Cancel	Write Off	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	

## VENEZUELA

DIGAS - TROPIVEN	Corporate	Elec. Power; Gas; Water & Sewer	Nov-98	Apr-99		no					10,000	0	10,000				7,000		Satisfactory A
INVERSIONES SELVA II	Corporate	Petroleum-based, Rubber & Plast.	Dec-97	Mar-98	Apr-99	yes		Mar-00			8,000	0	8,000		3,250		679	4,071	Mentioned
MANDIOCA	Corporate	Vegetables Production and Packing	Dec-91	Nov-92	Dec-96	yes					3,750	0	3,750				3,461	289	
ALFA QUARTZ	Corporate		Dec-90	Jan-92	Jan-94	yes			Aug-99		2,500	1,500	4,000		290		3,710		
TELEINPSAT	Corporate	Telecommunication	Dec-93			yes/d	Sep-94				3,000	0							
<b>Subtotals</b>										<b>27,250</b>	<b>1,500</b>	<b>25,750</b>	<b>0</b>	<b>3,540</b>	<b>0</b>	<b>7,850</b>	<b>11,360</b>	<b>0</b>	
<b>Intermediaries:</b>																			
BANCARACAS	Fin. Intermed.		Oct-91			yes/d	Jan-92				8,500	0							
CNV			Dec-93	Dec-93		yes/c		Mar-95			3,000	1,000	3,000	1,000	3,000	1,000			
COFORVEN			Jun-93	Dec-93		yes/c		Jun-94			3,000	0	3,000		3,000				
FONPRICA			Dec-92			yes/d	Mar-95				0	2,240							
<b>Subtotals</b>										<b>14,500</b>	<b>3,240</b>	<b>6,000</b>	<b>1,000</b>	<b>6,000</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>TOTALS</b>										<b>41,750</b>	<b>4,740</b>	<b>31,750</b>	<b>1,000</b>	<b>9,540</b>	<b>1,000</b>	<b>7,850</b>	<b>11,360</b>	<b>0</b>	

COUNTRY			KEY DATES							Approved		Committed		Can/Sold/Woff		Loan	Outstanding		Risk
Project	Instr.	Sector	Apprv.	Comt.	Last	18	Drop	Cancel	Write	Loan	Equit	Loan	Equit	Loan	Equit	Repaid	Loan	Equit	Classi
Name					Disb.	Mths			Off										

### REGIONAL

Equity Funds																			
Advent	Equity Fund		Mar-93	Dec-95		yes					4,984		4,984					4,584	Satisfacto
Essential Services	Equity Fund		Jul-97	Sep-97	Oct-00	no					2,603		2,603					5,000	Satisfacto
Scudder Latin Power II	Equity Fund		Mar-98	Mar-98		no					6,450		6,450					3,438	Satisfacto
Fondelec	Equity Fund		Sep-94	Oct-95	May-98	yes					2,868		2,868					4,510	Satisfacto
Latin Health Care	Equity Fund		Aug-97	Nov-97		no					5,000		5,000					4,784	Satisfacto
Westphre II	Equity Fund		Jul-98	Aug-98		no					10,000		10,000					9,991	Satisfacto
Newbridge Andean	Equity Fund		Jul-97	Nov-97		no					5,000		5,000					4,248	Doubtff
S.A. Private Equity Fund	Equity Fund		Jun-97	Aug-97	Jul-00	no					10,000		10,000					10,000	Doubtff
Advent II	Equity Fund		Dec-00			no													
Compass Fund	Equity Fund		Dec-99	May-00		no					10,000		10,000					2,860	Satisfacto
CEA L.A.C.P., L.P.	Equity Fund		Aug-00			no					7,500		7,500						
Caribbean Fund	Equity Fund		May-99	Dec-99		no					7,500		7,500					322	Satisfacto
CBPF	Equity Fund		Oct-98	Feb-99		no					5,000		5,000					1,250	Satisfacto
El Camino Resources			Dec-99	Apr-00		no				14,280		14,280					4,599		Satisfacto
CAIF	Equity Fund		Dec-95	Mar-96	May-00	no					2,316		2,316					2,316	Mention
C.A.G.F. L.P.	Equity Fund		Oct-00			no					5,000								
CBP Debt Facility			Dec-98			no				20,000									
LAAD			Aug-99			no				20,000									
Andean Fund	Equity Fund		Jul-95			yes/d					4,000								
Inver Privadas	Equity Fund		Nov-96			yes/d					5,000								
Oroya	Equity Fund		Dec-93			yes/d					1,900								
Polyproductos	Equity Fund		Apr-97	Sep-97		yes/d					3,000								
Eldon Fund	Equity Fund		Dec-97			yes/d					8,000								
Inter-American CF	Equity Fund		Aug-96			yes/d					5,000								
<b>Subtotals</b>										<b>54,280</b>	<b>111,121</b>	<b>14,280</b>	<b>79,221</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,599</b>	<b>53,303</b>	
<b>TOTALS</b>										<b>54,280</b>	<b>111,121</b>	<b>14,280</b>	<b>79,221</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,599</b>	<b>53,303</b>	

### IIC and OVE Summary Performance Ratings (16 Projects)

Project	Development Outcome	Project Business Success	Company Business Success	Growth of Productive Private Enterprise	Growth of the Economy (ERR, job creation, etc.)	Environment Impact	Investment Outcome	Equity	Loan	Effectiveness Outcome	Screening, Appraisal & Structuring	Supervision and Administration	Role & Contribution
1	MS/ <i>N.A.</i>	SAT	EXE	SAT/ <i>PU</i>	N.A.	SAT/ <i>N.A.</i>	SAT	N.A.	SAT	PU	PU	SAT	PU
2	S/ <i>N.A.</i>	EXE	EXE	SAT	N.A.	SAT	SAT	SAT	SAT	SAT/ <i>PU</i>	SAT	SAT	SAT/ <i>U</i>
3	MU/ <i>N.A.</i>	U	PU	PU	N.A.	PU	SAT	PU	SAT	PU	PU/ <i>U</i>	PU	PU
4	HS/ <i>N.A.</i>	EXE	EXE	EXE	N.A.	SAT	EXE	N.A.	EXE	EXE/ <i>SAT</i>	EXE	SAT/ <i>U</i>	EXE
5	MS/ <i>N.A.</i>	SAT	SAT	SAT	N.A.	SAT/ <i>N.A.</i>	SAT	N.A.	SAT	SAT	SAT	SAT	SAT
6	S/ <i>N.A.</i>	SAT	SAT	SAT	N.A.	SAT	SAT	N.A.	SAT	SAT/ <i>PU</i>	SAT/ <i>PU</i>	SAT/ <i>PU</i>	SAT
7	U/ <i>N.A.</i>	PU	U	U	N.A.	PU	U	N.A.	U	PU	PU	PU	U
8	MU/ <i>N.A.</i>	SAT/ <i>PU</i>	U	PU/ <i>U</i>	N.A.	SAT/ <i>N.A.</i>	U	U	U	PU	PU/ <i>U</i>	SAT	PU
9	MS/ <i>N.A.</i>	SAT	SAT	SAT	N.A.	SAT	SAT	N.A.	SAT	SAT	SAT	SAT	SAT
10	MS/ <i>N.A.</i>	PU	PU	SAT	N.A.	EXE	U	U	U	PU	PU	PU	SAT
11	S/ <i>N.A.</i>	SAT	SAT	SAT	N.A.	PU	SAT	SAT	SAT	SAT	EXE	SAT	SAT
12	HS/ <i>N.A.</i>	EXE	SAT	EXE	N.A.	EXE	PU	N.A.	PU	SAT	SAT	SAT	EXE
13	HS/ <i>N.A.</i>	EXE	SAT	EXE	N.A.	SAT/ <i>EXE</i>	EXE	N.A.	EXE	SAT	SAT	SAT	EXE
14	MU/ <i>N.A.</i>	PU	PU	PU	N.A.	SAT	SAT	N.A.	PU	PU	PU	SAT	PU
15	MU/ <i>N.A.</i>	U	PU	SAT	N.A.	PU	SAT	N.A.	SAT	PU	PU	PU	SAT
16	HS/ <i>N.A.</i>	EXE	EXE	SAT	N.A.	PU	SAT	SAT	N.A.	SAT	EXE	PU	EXE

IIC ratings are in regular font, OVE downgrading/upgrading are in italics.

HS - Highly Successful  
MS - Mostly Successful  
S - Successful  
MU - Mostly Unsuccessful  
U - Unsuccessful  
HU - Highly Unsuccessful  
EXE - Excellent  
SAT - Satisfactory  
PU - Partly Unsatisfactory  
U - Unsatisfactory  
N.A. - Not Available

Chart prepared by the IIC

*Expanded Annual Supervision Report (XASR) – Evaluation Addendum*  
(prepared by IIC)  
**Company X: A corporate direct investment**  
Date: September, 2001

**1. Objectives, Project Description, and Rationale:**

**Project Description:**

IIC's investment in **Company X** consists of a long-term loan (9 years, including a 2½ year grace period) with a variable rate facility for US\$1.3 million, plus a US\$0.3 million convertible loan (Loan B) for the same term, but with a 3 ½ year grace period. Additionally, the IIC negotiated an income participation agreement covering of 1% of Company revenues. Funds were fully disbursed by early 1996 and the Company is current in all its obligations with the IIC.

**Project Rationale**

In addition to providing a long-term financing which is not available in **(Country)**, this project helps to pioneer new techniques for the processing of special fruits, eliminating human processing and introducing mechanical processes that guarantee a better-quality product and improve working conditions for peasants. The project also provides permanent employment for about 300 people, temporary jobs for another 50, and indirect jobs for special fruit collectors and their families. By creating jobs and value for special fruit collectors, the project creates positive incentives that deter peasants from cutting trees and selling timber to complement their income. Another potentially positive aspect of the project is to cooperate with the **(Country)** government strategy of creating alternative crops to deter coca growing in remote regions of the country.

**What would have happened without the IIC's participation in this project?**

By the time the IIC got involved in this investment, the project was already in its first year of implementation, financed mainly with shareholder capital and short-term loans from local banks. To reach the target production levels, the Company needed to invest in construction and equipment and did not have access to the necessary long-term financing. The IIC appeared at a critical phase of the project; without its participation, the project might not have been completed as originally planned, or might even have remained unfinished.

**Project Timeline:**

IPS: March 1993 (Sponsor)  
IPR: August 1993  
Appraisal Report: December 1993  
Board Report: February 1994  
Approved by Board: March 1994  
1<sup>st</sup> Disbursement: November 1995  
Final Disbursement: January 1996

2. Summary performance ratings matrix:

	RATINGS					
	Highly Un-successful	Unsuccessful	Mostly Un-successful	Mostly Successful	Successful	Highly Successful
<b>1. DEVELOPMENTAL OUTCOME</b>						<input checked="" type="checkbox"/>
	<b>Company X has become an environmentally friendly and successful business, exceeding appraisal projections for sales revenues, creating more than 300 permanent jobs and 800 indirect seasonal jobs, and fostering positive changes in the special fruit industry.</b>					
	Unsatisfactory	Partly Unsatisfactory	Satisfactory	Excellent		
<b><u>Business success:</u></b>						
◆ Project						✓
◆ Company				✓		
<b><u>Project developmental impacts:</u></b>						
◆ Growth of productive private enterprise						✓
◆ Growth of the economy						✓
◆ Employment generation and social effects						✓
◆ Environmental effects				✓		

				<input checked="" type="checkbox"/>
<b>2. IIC'S INVESTMENT OUTCOME</b>	<i>The loan has been paid as scheduled and no problems are expected in the future. The IIC has benefited from an income participation scheme of 1% of sales revenues.</i>			
◆ Gross contribution — equity DCF-ROE= %				
◆ Gross contribution — loan				✓

			<input checked="" type="checkbox"/>	
<b>3. IIC'S EFFECTIVENESS</b>	<i>All risks were properly identified and mitigated; supervision has been frequent and timely, addressing every important aspect of the project. The IIC has fully met the original expectations for this project in terms of job creation, foreign exchange generation and development of small non-traditional private companies.</i>			
◆ Screening, appraisal, structuring			✓	
◆ Supervision and administration			✓	
◆ Role and contribution				✓

**Rationale for each of the above ratings:**

**Developmental outcome**

1. **Business Success:** The project implementation phase took about one year more than originally expected. This delay was due mainly to the inclusion of a new capitalist partner in the venture (Fundación XXX). Once the project was fully operational, the company had an outstanding performance in terms of growth, exceeding appraisal estimates for sales revenues and obtaining a reputation for good quality in foreign markets. The only constant problem was **Company X's** lack of access to working capital. This was partially solved with constant cash infusions by Fundación XXX during harvest months (November-March), and more recently by short-term loans from a Multilateral Corporation, to be used annually at harvest time.
2. **Economic Growth:** The project had some important benefits for the local economy. The production of Company X is almost entirely for export, thereby generating foreign exchange for **(Country)**. At the same time, the Company provides 300 direct jobs all year round, plus 800 indirect seasonal jobs, and creates incentives for peasants to reduce coca production and the cutting of trees for timber. By implementing a mechanical special fruit shelling process, the Company has helped to reduce the incidence of child labor and introduce normal (8-hour) working shifts for employees. At the same time, the Company's presence in the town of X has meant for its residents some secondary benefits such as a wider selection of goods at local marketplaces (brought in by the same trucks that in turn transport the special fruits to the capital city).
3. **Environmental Standards and Occupational Health and Safety Issues:** Company X is rated as Satisfactory according to the IIC's Environmental Risk Rating Index. Employee health and working conditions have improved since the startup phase, and are considered to be a benchmark for the industry. The Company has been praised by the **(Country)** government for its environmentally friendly production process, and is currently working towards obtaining HACCP status. Additionally, the Institute of Market Ecology (Switzerland) has awarded **Company X** a certification that enables it to label its products as organic in compliance with European Union regulations.
4. **Project Impact on the Private Sector:** Given its size, **Company X** has had a significant impact on the development of the private sector, fostering entrepreneurship among local peasants and transportation companies, plus competition with other producers and linkages to other businesses in a very remote area of **(Country)**. The success of **Company X** with mechanical shelling techniques has elicited changes in the special fruit industry, which is gradually abandoning a 100-year-old tradition of manually shelling special fruits in favor of **Company X's** production process. The success of this company has had positive demonstration effects as to good business practices and healthy profits, while at the same time protecting the environment and the indigenous culture. **Company X** has become a positive role model for the special fruit industry.

**Outcome of IIC's investment**

The IIC decided not to exercise the option of converting its "B" loan into equity due to liquidity issues and to the small size of the stock market in **Country**. The investment is rated as Excellent. All payments have been received on schedule, the company is well capitalized and no problems are expected in the future. Additionally, the IIC has a 1% participation in Company revenues.

**IIC's effectiveness**

1. **Appraisal and structuring:** Risks were properly identified, and they were properly addressed whenever a solution, such as ensuring a good management team was in place or solving logistical issues, was at hand. The project had other inherent risks, such as market volatility and the dependency on raw materials that could not be mitigated. Structuring the deal took more than a year following approval by the IIC Board of Executive Directors. This delay was mainly due to the entry of a new equity investor with controlling majority in the Company, a step that required major changes to the loan agreement.
2. **Supervision:** To date, the IIC has completed five annual supervision reports, which identify major investment-related issues, particularly the lack of working capital, the area of market prices for raw materials and end products, and the IIC's revenue participation.
3. **Role of the IIC:** At the time of Board approval, the IIC was seen as having the role of providing long-term funds to improve the Company's production process, create new jobs and establish positive incentives for special fruits collectors so as to keep them out of the coca and the timber businesses. The project has exceeded IIC original expectations in all respects, creating more permanent and seasonal jobs than originally envisioned, and eliciting a whole range of positive changes in the special fruit industry.

**Comparison of appraisal projections and actual outcomes for the four most recent years:**<sup>1</sup>  
(US\$millions)

Projected (P), Actual Audited (A) or Estimated (E)	<u>Board Report Projections</u>				<u>Actual to Date</u>			
	1997	1998	1999	2000	1997	1998	1999	2000
<b><i>Audited Balance Sheet data:</i></b> <sup>2</sup>								
Current assets	1,302	1,885	2,818	4,095	3,041	5,495	3,730	5,650
Total assets	3,451	3,509	4,153	5,141	4,316	4,996	5,099	6,248
Short-term debt	0	0	0	0	1,595	2,778	1,377	4,655
Long-term debt	1,189	700	500	300	2,034	1,402	1,676	931
Equity	1,458	2,050	3,228	4,462	3,603	3,946	3,919	6,132
<b><i>Audited Income Statement data:</i></b> <sup>2</sup>								
Sales Revenue	2,257	2,709	3,160	3,160	3,499	5,601	5,290	6,150
Gross Income	967	1,282	1,828	1,828	1,550	2,296	1,853	2,684
Operating income	548	841	1,365	1,365	792	1,231	558	1,533
Interest expense	276	212	146	89	559	578	460	577
Net Income	239	592	1,178	1,234	49	292	(64)	1,121
Avg. Exchange Rate (LC/\$)	?	?	?	?	5.23	5.45	5.69	6.08
<b><i>Key financial ratios:</i></b>								
Gross income/net sales	42.8%	47.3%	57.9%	57.9%	44.3%	41%	35%	43.6%
Net income/ net sales	10.6%	21.8%	37.3%	39.1%	1.4%	5.2%	-1.2%	18.2%
Current ratio (current assets/current liabilities)	2.37	3.42	10.69	15.53	1.38	1.01	0.8	1.11
Total liabilities/total equity	0.99	0.54	0.22	0.12	1.19	1.75	1.65	1.01
LT debt/total equity	1.16	0.64	0.27	0.14	0.56	0.36	0.43	0.15



3. **Emerging lessons from experience to date:**

- The success of **Company X** can be traced to its ability to develop in-house capacity to plan and procure an adequate raw material supply, and to contract directly with producers rather than through intermediaries with competing interests.
- In this part of (**Country**), where infrastructure is underdeveloped and severe road bottlenecks occur at harvest time, storage and transportation are key success factors for **Company X**. Therefore, close attention should be paid to the Company's logistical costs.
- In projects of a very seasonal nature such as that of **Company X**, care should be taken to structure payment schedules so as to ensure that payments do not coincide with the peak season, when the Company is strapped for cash.
- For projects where the company's performance is significantly influenced by the price of a single commodity, an in-depth analysis of the commodity's market is crucial. Also, financial projections should include a sensitivity analysis reflecting historic peak price levels in industries where input costs are largely driven by a single commodity, rather than relying on historically typical prices at the time of appraisal.
- Ventures subject to large cyclical swings in prices need sponsors with the means and staying power to weather difficult periods. **Company X's** sponsors have not yet been tested in this respect.
- Debt-equity ratios should be low in high-risk sectors and in countries with high interest rates; a significant mismatch between the currency in which an enterprise denominates its revenues and any borrowed currencies can greatly increase financial risks.

*Expanded Annual Supervision Report (XASR) – Evaluation Addendum*  
(prepared by IIC)  
**Banco X: Investment to a Financial Intermediary**  
Date: September, 2001

1. Objectives, Project Description and Rationale:

**Project Description**

The project consists of a credit line to **Banco X**. The funds will be used to provide medium- to long-term financing to SMEs lacking direct access to this type of financing in (**Country**). **Banco X's** line of credit consists of two "A" loans (IIC direct exposure) totaling US\$20 million, and two US\$151 million "B" loans. These "B" loans are structured in four tranches of US\$25 million, US\$35 million, US\$57 million, and US\$34 million. Currently, outstanding amounts are US\$13 million in connection with the "A" loan and US\$69.179 million in connection with the "B" loan. As to eligibility, initially 75% of sub-loans were intended to be for a maximum of US\$300,000 and 25% for a maximum of US\$500,000. Subsequently, these limits were modified to a maximum of US\$3 million per sub-loan, with no required percentages. The minimum term for a sub-loan is 3 years. So far, no loans at or close to the maximum level have been approved.

**Banco X I**

"A" Loan: US\$10 million; 9 ½ years with a 4½-year grace period; variable interest rate at LIBOR + 3%.  
"B" Loan: US\$121 million; 6 years with a 2-year grace period; variable interest rate at LIBOR + 2.75%.

**Banco X II**

"A" Loan: US\$10 million; 10 years with a 2-year grace period; variable interest rate at LIBOR + 3%.  
"B" Loan: US\$50 million; 7 years with a 2-year grace period; variable interest rate at LIBOR + 2.75%.

**Project Rationale**

The IIC's objective with this project was to support the development of **Banco X's** term lending to SMEs and support **Banco X** in its ongoing effort to provide technical assistance to SMEs through its IPYME foundation. The credit line was also designed to shore up **Banco X's** corporate finance activities, in line with its strategy of fostering growth through the SME market. Finally, by using a large financial intermediary with significant experience in the target market, the IIC expected to reach more SMEs than it would have been able to reach directly.

**What would have happened without the IIC's participation in this project?**

Without the IIC's participation, **Banco X's** business would have remained basically unchanged, since the project represented a small part of the bank's exposure. However, the project provided the bank with an important source of funding to increase its SME lending, thus bringing to these enterprises funds that might not have been available to them from other sources. International investors that at the time were lending medium-term funds to financial institutions in **Country** did not seem willing to provide funds for SMEs without the umbrella of an international organization like the IIC. Most of the funds from international banks and investors were for mortgage operations. Furthermore, the increased number of client SMEs allowed **Banco X** to provide them with ancillary services, thus consolidating their banking activities. In addition, **Banco X** was able to introduce a credit card for SMEs called "Tarjeta XXX", which the local press has dubbed a national success. Receivables from this credit card were promptly securitized, thereby contributing to the development of financial markets in **Country**.

**Timeline and Financial Events**

September 1992: IPR  
November 1992: Appraisal  
November 1992: Board Report/Approved February 1993  
June 1993: 1<sup>st</sup> Disbursement  
August 1993: Approval of B Loan for up to US\$35 million  
November 1995: Increase of B loan to US\$45-60 million  
March 1996: 2<sup>nd</sup> Increase of B Loan to US\$45-75 million  
December 1996: 3<sup>rd</sup> Increase of B loan to US\$80-100 million  
June 1997: 4<sup>th</sup> Increase of B loan to US\$80-127 million  
October 1998: Approval Banco X II  
March 1999: 1<sup>st</sup> Disbursement Banco X II

2. Summary performance ratings matrix:

	RATINGS					
	Highly Un-successful	Unsuccessful	Mostly Un-successful	Mostly Successful	Successful	Highly Successful
<b>1. DEVELOPMENT OUTCOME</b>						<input checked="" type="checkbox"/>
	<i>Banco X represents a very successful project that has exceeded original expectations in terms of access to SMEs, regional development, improvement of financial markets, and compliance with IIC environmental policies. The Banco X sub-project portfolio is well distributed among the country's different regions and it is focused on SMEs, primarily in the Agricultural and the Food and Beverages industries. Portfolio quality has been very good and all currently active projects are performing well.</i>					
	Unsatisfactory	Partly Unsatisfactory	Satisfactory	Excellent		
<b><u>Business success:</u></b>						✓
♦ Project						✓
♦ Company						✓
<b><u>Project developmental impacts:</u></b>						✓
♦ Growth of productive private enterprises						✓
♦ Employment generation and social effects				✓		
♦ Environmental effects				✓		
<b>2. IIC'S INVESTMENT OUTCOME</b>						<input checked="" type="checkbox"/>
	<i>Return on investment has been in line with original projections and, based on IIC's annual supervision reports, no problems are expected. The project is rated as excellent given its capacity to generate additional funds through co-financing fees.</i>					
♦ Gross contribution — equity DCF-ROE= %	N/A					
♦ Gross contribution — loan						✓
<b>3. IIC'S EFFECTIVENESS</b>						<input checked="" type="checkbox"/>
	<i>IIC staff did an excellent job in structuring the deal to guarantee access to small and medium-size companies. Supervision has been effective, with minor shortcomings arising from the magnitude of the project and the staff time required to process all the pertinent information.</i>					
♦ Screening, appraisal, structuring						✓
♦ Supervision and administration				✓		✓
♦ Role and contribution						✓

Rationale for each of the above ratings:

Developmental outcome

1. **Business Success:** **Banco X** has exceeded original expectations, financing more than 1,500 companies. It has been able to allocate and recycle the credit line smoothly, given its interest in SMEs and its well-structured pipeline of projects in this sector. Until mid-2000, projects amounted, on average, to US\$274,780, with an average financing of US\$143,769, for a term of about 4 years and 8 months. Companies financed until mid-2000 have an average US\$3,0 million in assets, US\$2,4 million in sales, and about 20 employees. Overall, bank performance has been positive. As of December 2000, the bank's total risk-weighted capital ratio was 16.14%, with healthy earnings, a net interest margin of 4.67% and an average 1.07% return on assets. Additionally, the bank has a good asset quality, with a ratio of non-performing loans to total loans of 3.92% (i.e., half that of the financial system's ratio and 65% of that of the ten largest banks). **Banco X's** portfolio of active sub-projects financed with funds from the IIC credit line is fully performing.
2. **Economic Effects:** Economic effects have been positive. **Banco X's** subproject portfolio is divided primarily among SMEs located in the country's different regions, with only about 20% of the portfolio invested in the capital city. This shows the project's regional development potential. Also, most of the portfolio is vested in the Agriculture sector (60%), followed by Food and Beverages (9.3%). There is not much employment generation information available, but based on the average number of employees of the companies financed, the project has helped to support over 30,000 indirect jobs. This credit line led **Banco X** to establish an SME division. Additionally, a few direct jobs were created when new staff was hired exclusively to manage in-house relations with the IIC and the Corporation's credit line. As of June 2000, this credit line represented about 8.5% of **Banco X's** long-term lending (over 24 months).
3. **Environmental Effects:** The **Banco X** project is ranked satisfactory in accordance with the IIC's environmental risk-rating index. Being a financial intermediary, the bank is required to attend, and has attended, the IIC's environmental training course. This enabled it to improve the development of its Environmental Management System for sub-projects. **Banco X** has also been incorporating environmental standards into its credit review system. It has also co-sponsored with the IIC one of our regional environmental workshops, to instruct our clients as to the IIC's environmental policies.
4. **Project Impact on the Private Sector:** The project has made a positive contribution to the growth of sustainable and viable financial institutions. Both **Banco X** Management and staff have gained useful experience in dealing with international organizations. The credit line size in relation to the bank's total liabilities is relatively low (about 1.75%), so it cannot be readily argued that the project had an impact on the bank's financial viability. Nonetheless, **Banco X** was able to use these funds to expand its SME operations. With the help of the IIC, **Banco X's** SME financing has had a positive demonstration effect in the country's financial markets, showing that a large bank can successfully target this market niche. In addition, the project has helped to introduce ancillary banking services, and an exclusive credit card, for SMEs.

**IIC investment outcome**

Equity.- Not applicable

Loan. – Excellent outcome: all payments have been received on schedule and, based on our annual supervision reports, no major problems are expected in the future. Additionally, the project has generated significant additional income for the IIC through the co-financing participation fees. Confidence in this investment is shown by the number of participants that have taken up the “B” loan and by the IIC’s issuance of a new “A” loan (**Banco X II**). The project is currently rated as Satisfactory A in accordance with the IIC’s Credit Risk Rating System.

**Effectiveness of the IIC**

- 1. Screening, appraisal, and structuring:** Screening for this project could serve as a best-practice example. **Banco X** entered the IIC’s pipeline following a study of **Country X’s** financial markets, paid by the IIC, where Banco X stood out as a leading player in the SME market and as a potential IIC client. Project staff performed a detailed analysis of **Banco X’s** ability to reach SMEs and its previous experience with this type of companies. The analysis sought to ensure not only that the bank had the requisite capabilities, but also that it had an existing pipeline of potential projects. The IIC and the bank negotiated and defined a set of disbursement conditions and sub-project eligibility requirements, establishing a set of achievable goals.
- 2. Supervision:** **Banco X** provides the IIC with regular and timely reports in compliance with the credit line reporting covenants. So far, seven supervision reports have been prepared. They are based both on **Banco X’s** reports and on field visits, and they reflect accurately the status of **Banco X** and of the sub-project portfolio. The reports also define all the key factors to which attention must be paid at a given moment, reflecting mostly the macroeconomic situation in **Country** and how it affects or benefits the Bank’s operations and the performance of the IIC credit line.
- 3. Role of the IIC:** At the time of Board approval, the IIC was seen as having the role of helping to increase **Banco X’s** SME loan operations and enable it to reach a larger number of companies. In this respect, the project has been a huge success, far exceeding the original goals and enhancing **Banco X’s** ability to target, conduct and monitor its lending activities in the SME area. The project has also had a huge catalytic effect, having been co-financed by 26 foreign private banks.

**Comparison of appraisal projections and actual outcomes for the four most recent years: <sup>1</sup>**  
(US\$ million)

	<u>Board Report Projections</u>				<u>Actual-to-Date</u>			
Projected (P), Actual Audited (A), or Estimated (E)	1997	1998	1999	2000	1997	1998	1999	2000
<b><i>Audited Balance Sheet data:<sup>2</sup></i></b>								
Total assets (US\$ MM)	2,139	2,272	2,414	2,565	10,915	13,049	13,720	16,081
Current loans	1,504	1,580	1,662	1,749	6,010	7,617	8,446	9,326
Past-due loans					228	259	319	326
Loan losses reserves	112	132	153	175	186	217	268	261
Total deposits	1,259	1,335	1,415	1,500	5,976	7,141	7,850	8,743
Borrowings	467	490	515	541	4,036	4,771	4,659	6,006
Subordinated debt								
Total equity	360	394	431	471	902	1,088	1,210	1,332
<b><i>Audited income statement data:<sup>2</sup></i></b>								
Interest income	309	328	348	368	899	1096.	1280	1508
Net financial income	192	204	216	230	437	433	572	723
Operating expenses	235	246	259	272	368	474	561	607
Provision for loan losses	24	26	27	29	112	84.4	216	249
Other income (Equity Investments)	15	15	15	15	18	27.5	128.9	(5.5)
Other expenses								
Net income	44	47	51	56	116	114	150	156
Avg. Exchange Rate (LC/\$)	1/1	1/1	1/1	1/1	1/1	1/1	1/1	1/1
<b><i>Key financial ratios:</i></b>								
Min. capital requirement							13.0%	16.1%
Total equity/total assets	23.9%	24.9%	25.9%	27.0%	8.26%	8.37%	8.82%	8.28%
Past-due loans/ gross loans					3.69%	3.31%	3.67%	3.40%
Non performing loans/gross loans					4.72%	4.08%	4.51%	3.95%
Loan loss reserves/Nonperf. Loans					63.7%	67.9%	68.2%	69.0%

3. **Emerging lessons from experience to date:**

- A project like **Banco X**, with so many sub-projects financed with the credit line, can be very taxing on the IIC staff charged with monitoring the sub-portfolio and ensuring that it is in line with the IIC's developmental targets. If the IIC wishes to pursue the strategy of financing other similar projects, its sub-project supervision capabilities should first be prepared to monitor sub-project standards adequately.
- The success of the **Banco X** project demonstrates the advantage of investing in a financial intermediary that, prior to the disbursement of the credit line, already had sound experience in funding SMEs, and a well-defined pipeline of potential projects.
- Co-financing was made possible by the bank's good financial standing. The transaction helped not only to channel additional resources to SMEs, but also to generate additional income for the IIC.