

## Inter-American Investment Corporation

### Rationale

Inter-American Investment Corp. (IIC) began operations in 1989 with a mandate to finance the establishment, expansion, and modernization of SMEs by providing equity and short-, medium-, and long-term loans without government guarantees; by mobilizing funding from other investors; and by providing a variety of financial and technical advisory services. Its membership includes all IADB LACMCs and all but four nonregional members.

IIC is the smallest of the rated MDFIs in terms of both assets and shareholders' equity. Its total assets at year-end 2005 were US\$676 million, of which US\$432 million was loans and US\$78 million was equity investments. Its shareholders' equity was US\$469 million.

The corporation's difficult mandate contributed to loan and equity portfolios that performed poorly for many years, resulting in an accumulated deficit of almost US\$32 million at year-end 2005. IIC's financial performance has improved substantially in recent years, with net income of US\$13.7 million during 2005.

In December 1999, IIC's members approved an increase in IIC's authorized capital to US\$703.7 million from US\$203.7 million, of which US\$700.7 million was subscribed as of year-end 2005. Subscriptions from the 1999 capital increase are payable in eight roughly equal installments beginning in 2000 and ending in 2007. Combined with the relatively slow growth of its loans, equity investments, and guarantees (together, its development-related exposure [DRE]), these installments of paid-in capital resulted in an increasingly strong financial profile. At year-end 2005, IIC's ratio of provisions for losses plus shareholders' equity (its narrow risk-bearing capacity) to DRE was 102%, among the highest for rated MDFIs.

IIC had nearly US\$208 million in cash and marketable securities at year-end 2005. With only US\$130 million in outstanding borrowings from committed facilities totaling US\$530 million (including US\$300 million from IADB)—the first US\$30 million of which is payable in 2009—and scheduled additional receipts of paid-in capital of almost US\$200 million during 2006 and 2007, IIC has a very strong liquidity position.

Credit Rating:  
AA-/Stable/A-1+

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Publication Date**

July 20, 2006

The corporation's mandate has proven challenging, if not daunting. Its shareholders have relaxed some of the strictures under which it has operated and IIC's management has changed some of its policies and practices, which should result in better-performing loan and equity portfolios in the future. Nonetheless, in the absence of additional capital, IIC will continue to suffer diseconomies of scale and be frustrated in its efforts to have a measurable impact on development in its LACMCs.

### **Outlook**

The stable outlook balances IIC's difficult mandate, the prospect of the end of members' capital contributions in 2007, its lack of support from some of its member countries, and the prospect that it will continue to have a small developmental impact against its strong capital and liquidity positions and improved financial performance.

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