

RESEARCH

Summary:

Inter-American Investment Corporation**Publication date:** 22-Jun-2007**Primary Credit Analyst:** Larry Hays, Ph.D., New York (1) 212-438-7347;

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Credit Rating: AA-/Stable/A-1+**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. It had 43 member countries at year-end 2006, including all IADB LACMCs.

IIC had shareholders' equity of US\$587 million at year-end 2006, the least of any rated MDFI. Its total assets at year-end 2006 were US\$940 million, of which US\$619 million was loans and US\$67 million was equity investments.

The corporation's difficult mandate contributed to loan and equity portfolios that performed poorly for many years. However, following a management change, its performance improved steadily recent years. This culminated in operating income of US\$39 million in 2006, equal to a 4.9% operating return on average assets plus guarantees and a 7.5% return on average shareholders' equity, both very high for an MDFI.

In December 1999, IIC's members approved an increase in its authorized capital to US\$703.7 million from US\$203.7 million, all of which was subscribed as of year-end 2006. The last installment of capital contributions is due by October 2007, although it appears that some members will not meet this deadline.

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 contributed to an increasingly strong financial profile. Even after the 38% increase in outstanding DRE during 2006, IIC's ratio of provisions for losses plus shareholders' equity (its narrow risk-bearing capacity) to DRE was nearly 91% at year-end, among the highest for rated MDFIs.

IIC had more than US\$260 million in cash and marketable securities at year-end 2006, almost 28% of total assets. It also had an unused credit facility of US\$300 million from IADB and smaller amounts from commercial financial institutions. With only US\$342 million in outstanding borrowings (the first US\$50 million of which is payable in 2009), IIC has a very strong liquidity position.

The corporation's mandate has been challenging for IIC's management. However, in recent years its shareholders have relaxed some of the strictures under which it formerly operated, and management has changed some of its policies and practices. This has resulted in markedly better-performing loan and equity portfolios. Nonetheless, in the absence of additional capital after the final installments of the 1999 capital increase are received, and despite the improvement in its financial performance and its impact at the microeconomic level, IIC will continue to suffer diseconomies of scale and be frustrated in its efforts to have a significant macroeconomic impact on the development of 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 timely support from some member countries; the prospect that it will continue to have a small aggregate developmental impact; and its expected increasing gearing against its current strong capital and liquidity positions and improved financial performance.

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