JOUNI EERIKAINEN

Latin America and the Caribbean

Project Financing and Portfolio

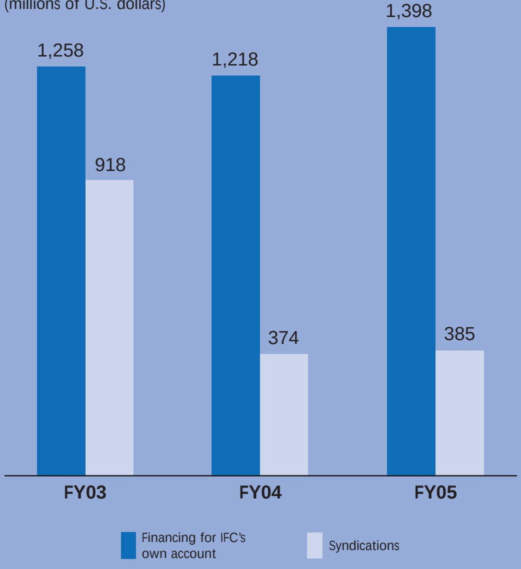
(millions of U.S. dollars)

	FY03	FY04	FY05
Financing committed for IFC's account	1,258	1,218	1,398
Loans	1,147	1,119	1,221
Equity	63	60	75
Guarantees and risk management	47	39	103
Loan syndications signed	918	374	385
TOTAL COMMITMENTS SIGNED	**2,176**	**1,593**	**1,783**
Committed portfolio for IFC's account	6,145	6,076	6,125
Loans	4,963	5,033	5,113
Equity	1,099	928	799
Guarantees and risk management	82	115	213
Committed portfolio held for others (loan participations)	3,447	2,504	2,179
TOTAL COMMITTED PORTFOLIO	**9,592**	**8,580**	**8,305**

Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

Commitments

(millions of U.S. dollars)



IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

Brazil	1,398
Mexico	1,104
Argentina	731
Colombia	387
Peru	320

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	53	45	54
Number of countries	16	16	17

Some data from previous years have been revised. All dollar amounts reflect rounding.

An Economic Rebound amid Major Challenges

The economy of Latin America and the Caribbean is rebounding significantly from years of crisis. Growth was 6 percent during 2004—up sharply from 1.9 percent the previous year—and it has remained strong into 2005, reflecting an upswing in exports of commodities to China, a growing U.S. economy, and effective fiscal and debt management that has lowered country risks. But the region continues to face major challenges. It compares unfavorably with other emerging markets in investment climate, domestic financial sectors, infrastructure, and social tensions. These factors have hampered the development of a broad-based private sector, and the benefits of growth have yet to reach poorer segments of the population. Having responded to the region's crisis with countercyclical interventions in the last few years—supporting export-earning projects in Argentina, for example, and helping reactivate trade financing in Brazil—IFC has now refocused its activities on providing longer-term funding and selecting projects with a broader impact on social and economic inclusion. Throughout, we have emphasized competitiveness, support to high-growth industries, and helping the region's firms become global players.

During FY05, IFC committed $1.4 billion, including $385 million in syndications, in the region, with an emphasis on sectors that have a high impact on poverty alleviation and economic competitiveness. IFC continued to find creative ways to maximize its impact, partnering with clients, nongovernmental organizations, donors, host governments, and local communities, as well as increasing our collaboration across the World Bank Group. The Corporation was able to reach underserved segments of the economy, particularly lower-income housing; micro, small, and medium enterprises; and indigenous groups. We also helped corporates face many challenges posed by globalization: the need to deepen local capital markets, improve corporate governance, become more competitive globally, and address environmental issues (see box).

Technical assistance is a key component of IFC's work in the region. We are using our LAC Facility, IFC's advisory services on privatization, and teams specializing in the development of smaller businesses. These efforts, many of which are donor-funded, are resulting in streamlined business regulations (see box), improved access to markets, more socially responsible enterprises, and stronger competitiveness in small businesses. In Brazil, Colombia, and Peru, IFC is collaborating with the World Bank to deliver on specific findings of the *Doing Business* report, which pinpoints ways to improve the business environment. Technical assistance is also supporting IFC's investments in strategic industries—oil, gas, mining, and agribusiness—sectors where we often have unique expertise to offer our clients. The Corporation is advising on several privatization mandates, notably in Brazil and Panama.

Poor infrastructure remains a constraint to growth throughout the region. Underinvestment in the sector impedes economic activity, and in many countries, basic utilities are not available to poorer people. This year IFC financed three operations totaling $96 million in the energy sector, with an emphasis on environmentally friendly sources of energy and on reduction of harmful emissions. Recognizing that the region's exporters face bottlenecks and high costs, the Corporation also invested in transport and

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logistics. Projects include ports in Brazil and Panama, airports in the Dominican Republic, and a logistics company in Peru. Our investments in two regional airlines, Copa and Taca in Central America, will help promote regional integration and competitiveness. We also lent $15 million for a telecommunications project in Paraguay.

IFC is also helping clients understand how sustainability fuels growth. Many companies are gaining business benefits from progress toward sound environmental practice, better corporate governance, and attention to social and economic development in the communities where they operate. In key industries, IFC is combining financial investments with assistance in community engagement and in local capacity building for efficient use of fiscal revenues; the Yanacocha project in Peru is a good example (see box). In this project and others, IFC is addressing the specific issues and challenges of projects in the extractive industries as part of our comprehensive commitment to sustainable development. This year we also financed two oil and gas projects in Bolivia and Venezuela.

IFC is introducing innovative financial products into local capital markets, giving clients new sources of long-term financing while helping them avoid foreign exchange risk. This approach is allowing us to make a difference in the social sectors: this year, we partially guaranteed a seven-year bond in U.S. dollars and Peruvian soles to Universidad San Martin de Porres, a leading private higher education institution in Peru. In addition,

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Latin American Corporates Go Global

IFC works with first-tier companies in the region's larger countries when we can help them become more competitive in the global marketplace. We assist in long-term finance, advise on corporate governance and environmental performance, and encourage firms to invest in other emerging economies. Through all these efforts, IFC promotes greater development impact.

Empresa Brasileira de Aeronáutica (Embraer), a Brazilian company listed on the New York Stock Exchange, is among the world's largest aircraft manufacturers and Brazil's second-largest exporter. But due to perceived country risk, Embraer—like other top-rated Brazilian borrowers—has limited access to loans in the international market with tenors of five or more years. This is a constraint to growth in an industry whose product cycle is up to 10 years. IFC's $180 million loan package, which includes $145 million in long-term funding from participating banks, is financing the end-stage launch program for Embraer's new 170/190 series passenger airplanes. This will help the company consolidate its position as a global player and diversify its funding base.

IFC is also helping Embraer reduce its emissions of volatile compounds and integrate international reporting standards into its internal financial monitoring. In addition to the benchmark loan tenor, our due diligence and ongoing business relationship with Embraer contribute to the company's establishing itself in the global debt markets.

This year IFC also provided a $50 million loan to Carvajal, one of the leading privately owned Colombian multinationals. Carvajal, a socially responsible company, operates in 17 countries across Latin America; its business lines include paper manufacturing, school and office supplies, plastic packaging, and publishing. IFC's loan supports Carvajal's further expansion in the region, helping it improve efficiency and upgrade its environmental standards.

MATTHIAS HEDINGER

An Ongoing Commitment to Microfinance

IFC's portfolio of microfinance investments in Latin America and the Caribbean covers countries as varied as Bolivia, El Salvador, Haiti, Mexico, Nicaragua, and Peru. These include key investments in specialized, privately managed funds that operate on a regional level. Our efforts emphasize activities and transactions that effectively connect microfinance institutions with financial and capital markets, and we are developing and working with private sector investors and funds that have a focus on microfinance. We are also responding to the demand among microfinance institutions for innovative investment structures, including bond issues and securitizations, that allow them to reach new groups of investors such as local pension funds.

This year, IFC invested $430 million in three microfinance operations in Brazil, Chile, and Mexico. By developing creative structures and instruments and partnering with bilateral institutions, multilaterals, and NGOs, we are reaching out to entrepreneurs in segments traditionally excluded from the formal economy, including women, indigenous groups, and people in rural areas.

An investment in Mexico's Financiera Compartamos is a key example. With IFC's help, Compartamos has closed a bond transaction that greatly improves its access to financing from institutional investors. Some 300,000 Mexican small businesses, the vast majority of them run by women, rely on microloans from Compartamos, which is registered in Mexico as a *sofol*, a nondeposit–taking financial institution. The company's ability to tap the markets is critical for its expansion. In July 2004, Compartamos issued five-year, Mexican peso bonds equivalent to $15 million. The issue was partially guaranteed by IFC for 34 percent of the outstanding principal amount. Our guarantee helped the bond issue achieve high ratings from both Standard & Poor's and Fitch. The transaction was named the Best Structured Bond of the year by *LatinFinance*.

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The Caribbean: Benefiting Business and the Environment

IFC is helping ensure that projects with broad environmental benefits are commercially viable in emerging markets. In line with our pledge to increase lending for renewable energy, IFC has provided $23 million to Consorcio Energetico Punta Cana-Macao SA, a small, off-grid private utility company serving the Bavaro and Punta Cana districts in the Dominican Republic. The project will include construction, operation, and maintenance of an 8.25-megawatt wind power plant to be located at Cabo Engano. By using a clean, sustainable resource rather than burning fossil fuels to produce electricity, the plant will avoid 17,000 tons of carbon emissions per year over the 20-year life of the project. The project is expected to demonstrate the viability of wind power in many emerging markets.

IFC is also assisting Trinidad Cement Limited, the only integrated cement producer in the English-speaking Caribbean, as it expands and modernizes its Jamaican subsidiary. In addition to lending $35 million, we helped the company arrange local financing, including a bond issue in Trinidad and Tobago dollars and a syndicated loan. The funding will enable the company to raise its environmental performance, with improvements in the production process reducing carbon emissions by more than 100,000 tons per year. This reduction should make the company eligible for carbon credits under the IFC-Netherlands Carbon Facility.

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IFC uses local swap markets to structure direct local currency loans and hedges to clients; we work closely with market counterparts in Latin America to extend the maturity and liquidity of these swap products.

During FY05, IFC committed $622 million for 21 financial sector projects in areas including finance for micro, small, and medium enterprises (see box); housing finance (see box, p. 13); financial restructurings; and regional banking. Our efforts to develop local capital markets and expand financing options for local corporations included an IFC guarantee to Corporacion Drokasa S.A. in Peru; our participation helped ensure a triple-A credit rating for the bond. In another innovative transaction, financing we arranged for a cement company includes a bond that raised $50 million equivalent in Trinidad and Tobago (see box). A credit line to Brazil's Banco Real allows it to target some of its lending specifically to companies that are improving their environmental sustainability (see box).

IFC committed $217 million for five projects that support housing finance to lower-income families, as well as the deepening of local capital markets. In addition, we are using technical assistance to improve access to housing finance: through a program funded by Canada and Italy, we are working to integrate primary mortgage markets in Central America and supporting Peru's Fondo Mivivienda in developing a domestic market for secondary mortgages.

Peru: Broader Benefits from Mining

IFC is helping companies in the mining sector upgrade their social and environmental performance so that more local people benefit. In addition to financing, we are providing training and technical assistance that build stronger ties between these companies and surrounding communities, as well as to the smaller businesses that can serve as suppliers of goods and services. The goal is to promote sustainable economic development around the mining projects in which we invest. In Peru, for example, IFC and the World Bank are strengthening local municipalities' capacity to manage funds that the Yanacocha mine generates, as well as helping disseminate information on the mine in order to increase transparency and accountability. Working through local NGOs and service providers, we have helped local small and medium enterprises improve their business skills and their access to finance—in some cases expanding their role as suppliers to the mine. With IFC's encouragement, the Yanacocha mine has set up a foundation that is undertaking broader community development programs in health care, education, agriculture, forestry, and microfinance. Yanacocha also supports directly an extensive rural development program for communities near the mine.

Brazil: A Long-term Partnership Promotes Sustainability

IFC has committed a $115 million credit line to Brazil's ABN AMRO Banco Real that supports long-term on-lending targeted to sustainability. The funding will finance firms for environment-related projects as well as small and medium enterprises whose work addresses climate change, loss of biodiversity, land degradation, and persistent organic pollutants. A long-time IFC client, ABN AMRO was one of the original adopters of the Equator Principles—voluntary standards based on IFC's environmental and social guidelines. And now its Brazilian operation, Banco Real, is the world's first financial institution to target a large IFC credit line specifically to advancing environmental sustainability. The investment lets Banco Real focus on middle-market, family-owned companies in Brazil. Funding from IFC's credit line is expected to encourage a wide range of reforms that promote sustainability in these companies.

MARCY VIEIRA

Reducing the Hurdles to Registering a Business

Local governments are a first point of interaction for many businesses, and they tend to impose a high administrative burden. Hence IFC's LAC Facility is working to simplify regulatory procedures, especially business registration at the municipal level. Starting with a pilot in Bolivia's capital, La Paz, the facility's business simplification work has grown within two years into a regional program, allowing a common methodology and sharing of expertise across countries while still tailoring assistance to the specific needs of the client. The facility has helped simplify administrative procedures in Bolivia, Honduras, and Nicaragua and is expanding this effort to Brazil and Peru. By making it simpler to register a business, these reforms encourage more businesses to comply. While increasing revenues for municipalities, the simpler procedures also bring more micro, small, and medium enterprises into the formal economy, making it easier for these entrepreneurial businesses to access finance.