

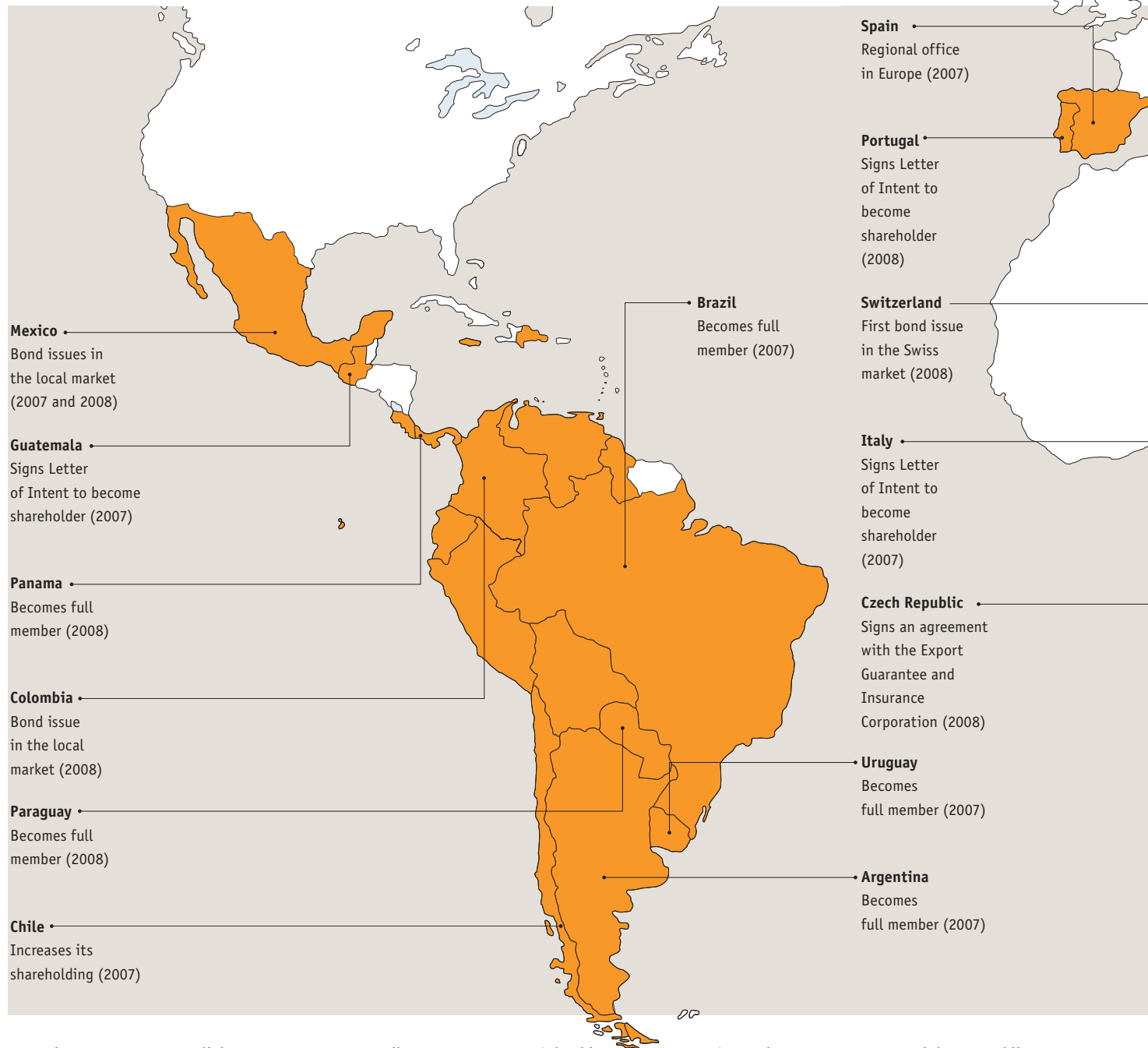
Annual Report 2008



Corporación Andina de Fomento (CAF) is a multilateral financial institution whose mission is to support sustainable development and regional integration in Latin America. Its shareholders are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Spain, Trinidad & Tobago, Venezuela, and 14 private banks within the region.

CAF serves both the public and private sectors of the economy, providing a wide variety of products and services to a broad portfolio of clients that include the governments of shareholder countries as well as public and private companies and financial institutions. Social and environmental variables are deemed key in the Corporation's management policies, including ecoefficiency and sustainability criteria in all of its operations. As a financial intermediary, CAF allocates resources from industrialized countries to Latin America, serving as liaison between the region and international capital markets, and promoting business and investment opportunities.

CAF EXPANDS ITS LATIN AMERICAN SCOPE AND ENHANCES ITS CATALYTIC ROLE TO INCREASE COOPERATION BETWEEN LATIN AMERICA AND THE REST OF THE WORLD



Argentina
 Shareholder since 2001
 Approvals: USD 411 MM
 Disbursements: USD 294 MM
 Loan portfolio: USD 693 MM
 Cooperation funds: USD 560 mil

Bolivia
 Shareholder since 1970
 Approvals: USD 560 MM
 Disbursements: USD 444 MM
 Loan portfolio: USD 1,110 MM
 Cooperation funds: USD 6 MM

Brazil
 Shareholder since 1995
 Approvals: USD 1,798 MM
 Disbursements: USD 951 MM
 Loan portfolio: USD 825 MM
 Cooperation funds: USD 242 mil

Chile
 Shareholder since 1992

Colombia
 Shareholder since 1970
 Approvals: USD 1,483 MM
 Disbursements: USD 892 MM
 Loan portfolio: USD 1,707 MM
 Cooperation funds: USD 5 MM

Costa Rica
 Shareholder since 2002
 Approvals: USD 120 MM
 Disbursements: USD 86 MM
 Loan portfolio: USD 107 MM
 Cooperation funds: USD 301 mil

Dominican Republic
 Shareholder since 2004
 Approvals: USD 75 MM
 Disbursements: USD 55 MM
 Loan portfolio: USD 55 MM
 Cooperation funds: USD 145 mil

**Ecuador**

Shareholder since 1970
 Approvals: USD 604 MM
 Disbursements:
 USD 443 MM
 Loan portfolio:
 USD 2,018 MM
 Cooperation funds:
 USD 5 MM

Guatemala

Signs Letter of Intent:
 November 16th, 2007

Jamaica

Shareholder since 1999

Mexico

Shareholder since 1990
 Approvals: USD 10 MM
 Cooperation funds:
 USD 439 mil

Panama

Shareholder since 1997
 Approvals: USD 635 MM
 Disbursements:
 USD 16 MM
 Loan portfolio:
 USD 72 MM
 Cooperation funds:
 USD 808 mil

Paraguay

Shareholder since 1997
 Approvals: USD 6 MM
 Disbursements:
 USD 8 MM
 Loan portfolio:
 USD 37 MM
 Cooperation funds:
 USD 1 MM

Peru

Shareholder since 1970
 Approvals: USD 1,458 MM
 Disbursements:
 USD 1,531 MM
 Loan portfolio:
 USD 1,774 MM
 Cooperation funds: USD
 7 MM

Trinidad & Tobago

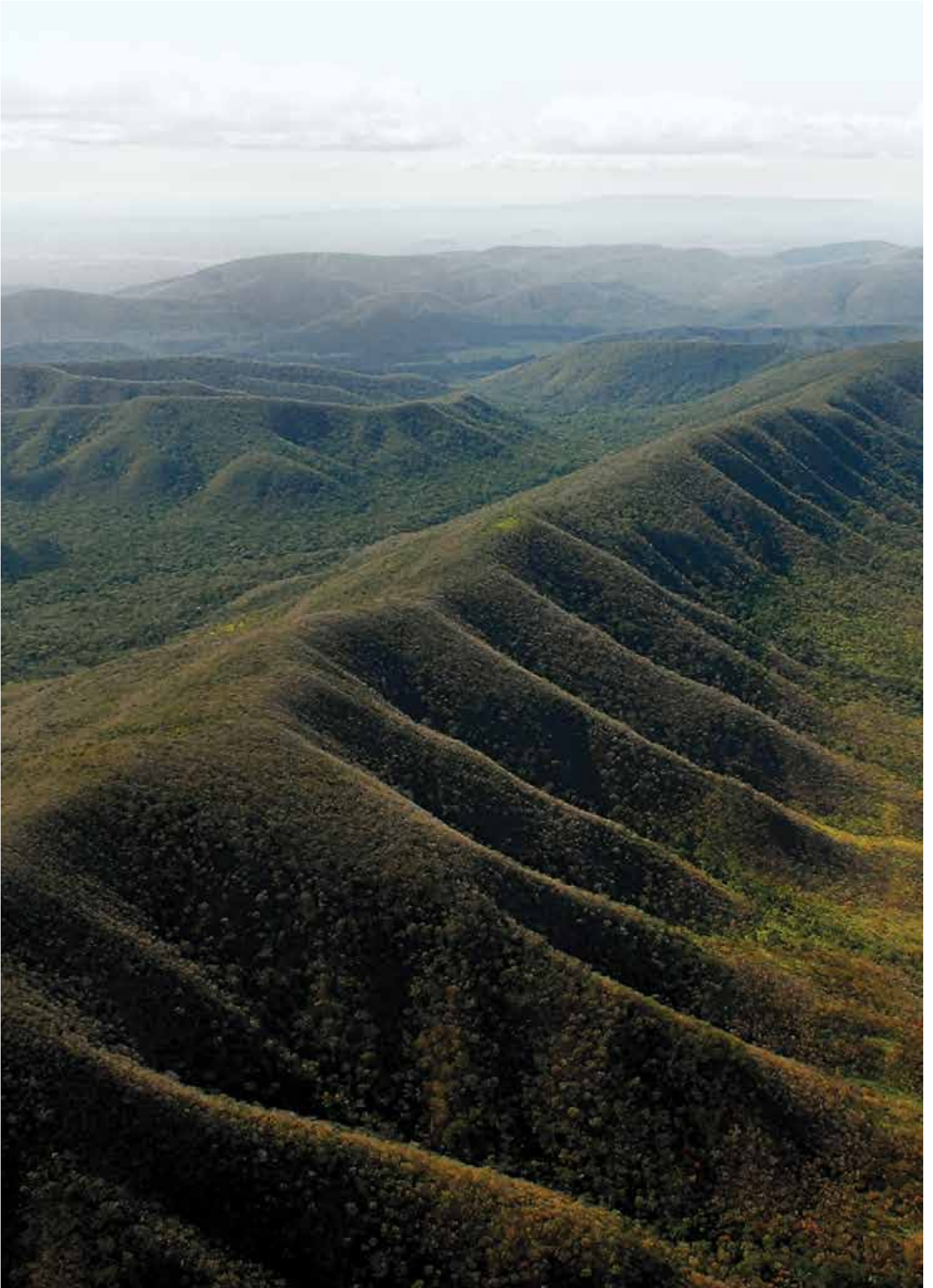
Shareholder since 1994
 Support for the
 realization of the
 Summit of the Americas

Spain

Shareholder since 2002
Uruguay
 Shareholder since 2001
 Approvals: USD 601 MM
 Disbursements:
 USD 170 MM
 Loan portfolio:
 USD 232 MM
 Cooperation funds:
 USD 500 mil

Venezuela

Shareholder since 1970
 Approvals: USD 72 MM
 Disbursements:
 USD 260 MM
 Loan portfolio:
 USD 1,535 MM
 Cooperation funds:
 USD 1,5 MM



Chiquitania, Bolivia.

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L. Enrique García, Executive President.

MESSAGE FROM THE EXECUTIVE PRESIDENT

I am pleased to present the Annual Report and audited financial statements for the year 2008.

Despite de complex global financial scenario, CAF provided substantial and relevant support to its shareholder countries, while attaining highly satisfactory operating and financial results.

During 2008, the Institution achieved record levels of operations, in line with a Comprehensive Development Agenda, which aims to strike a balance among the objectives of macroeconomic stability, microeconomic efficiency, social equity, and environmental sustainability in Latin America and the Caribbean.

With the incorporation of Panama and Paraguay as full members of the Institution, CAF made significant progress in deepening its Latin American dimension. The subscription of agreements with those nations followed those of Argentina, Brazil and Uruguay in 2007.

CAF's positive financial performance is evidenced by relevant ratios referred to asset quality, liquidity, profitability and administrative efficiency. Of particular note was the optimal management of its liquid investments under extremely adverse financial conditions. As a result, rating agencies ratified CAF's credit quality. Moreover, the Institution maintained an important presence in international capital markets, including bond placements in Latin American markets.

I would like to express my profound appreciation to shareholders, board members, and employees for their permanent and strong cooperation and support.



L. Enrique García
Executive President

1

Financial highlights

(in millions of USD)

2008

2007

Total assets

14,272 12,590

Liquid assets

3,281 2,458

Investment and loan portfolio

10,259 9,622

(in millions of USD)	2008	2007
Paid-in capital	2,176	2,015
Total shareholders' equity	4,554	4,127
Net income	311	401

- **Expansion of CAF's Latin American scope: the incorporation of Panama and Paraguay as full members in 2008 –which will result in an increase of paid-in capital of USD 360 million– followed that of Argentina, Brazil and Uruguay in 2007.**

- **Progress in promoting CAF's activities in the European Union and other regions of the world, including Asia, in its effort to mobilize resources to finance development projects in Latin America.**

- **Enhancement of the Institution's catalytic role to increase cooperation between Latin America and the rest of the world:**

- **The Italian parliament approves the incorporation of Italy as shareholder.**
- **Portugal signs a Letter of Intent for its incorporation in the near future.**

- **Record levels of approvals (USD 7,946 million) and loan portfolio (USD 10,259 million), with full members receiving 96% of total approvals. Additionally, non-reimbursable resources amounted to USD 38 million.**

- **Establishment of contingent credit lines for USD 1.5 billion to assist shareholders in mitigating the effects of the financial crisis.**

- **Excellent financial performance: Total Assets of USD 14.3 billion and Shareholders' Equity of USD 4.6 billion (includes new capital payments of USD 206 million).**

- **Bond placement in Swiss Francs equivalent to USD 194 million, which marked CAF's entrance in the demanding Swiss capital market, open only to issuers of high credit quality.**

- **Reaffirmation of the Institution's credit ratings, despite the adverse international financial environment.**

3

Economic overview and regional integration

RECENT EVOLUTION AND PERSPECTIVES

The year 2008 will be remembered as a turning point in many Latin American economies. While at the beginning of the year the debate on public policies concentrated on the food crisis and the real appreciation of currencies in a context of abundant global liquidity and increasing inflationary pressures, the last quarter provided a 180 degree turn as concerns shifted to recession, deflation, and credit restrictions.

This turn was undoubtedly triggered by the global financial crisis originated in the real estate market in the United States, where high levels of liquidity encouraged mortgage lending to the benefit of consumers, including those with questionable payment capacities. In turn, these mortgages were used as collateral to structure highly complex and profitable financial products, but with non negligible implicit systemic risks. Due to the integration of world financial markets, these derivative instruments were widely traded in most industrialized countries. The gradual reduction of liquidity led to higher interest rates, which translated into an increase in delinquent mortgage loans, which in turn led to a deterioration of derivative instruments. The stability of many financial institutions around the world was threatened due to their high level of exposure to these instruments. The problems of uncertainty and information asymmetries regarding the solvency of the banking institutions led to a broad disruption of credit which required strong actions on the part of governments and central banks to prevent the collapse of the banking system.

Until mid 2008, the effects of the financial crisis and the global deceleration on Latin American economies had been limited. However, the region did not escape the effects of the collapse of the financial markets since October. The financial panic led to a widespread movement of capital toward low risk assets which in a few weeks led to the collapse of the region's stock markets, currency depreciations, and liquidity problems in banks that ultimately affected commercial activity and resulted in higher costs and restrictions on credit. The beginning or deepening of recession in the main industrial economies added to the financial problems, leading to a deceleration of exports in the region through a reduction in the trade volumes in some cases, and the collapse of commodity prices in others.

In spite of the external difficulties in 2008, the region grew for the sixth consecutive year, especially in the second semester, albeit less dynamically than in previous years. However, economic results were not homogeneous. Performance across countries varied according to the nature and degree of external exposure, and the strength of economic fundamentals. Thus, South American countries grew more than those in Central America and the Caribbean. While South American countries on average registered an increase in the terms of trade that supported the improvement of external accounts, the opposite happened in Central America and the Caribbean, where special programs were needed to reduce the impact of price increases of fuels and foods. Foreign direct investment continued to flow toward the region but more intensely to those countries with better investment environments and stronger fundamentals.

The sharp deterioration of world economic conditions marked the start of a new and more complex phase for Latin America, which for a number of years had benefited from a favorable global environment. In general terms, this will translate into lower rates of economic growth for the region. On the one hand, while financial systems readjust in industrialized economies and strong risk aversion persists, there will be difficulties to cover the financing needs both in the public and private sectors, and access to credit will be more expensive. On the other, falling demand in developed economies and the slowdown in China and India will continue to affect the region's exports. Falling employment in the United States and Europe will also lead to a greater reduction in the flow of remittances toward the region.

In spite of this situation, Latin America is better prepared than in the past to face the international crisis. In fact, contrary to the last financial crisis of a decade ago, the region has better macroeconomic fundamentals. The considerable accumulation of international reserves (more than USD 460 billion), the lower levels and improved profile of external debt, greater fiscal discipline, consolidation and strengthening of domestic financial systems, and the almost non-existent exposure to high-risk mortgage assets have contributed to mitigate the impact of the deterioration of the external environment. The improved fiscal standing affords governments greater degrees of freedom to apply counter cyclical policies and to take actions to defend the financial systems, if necessary. At the same time, the accumulated international reserves will provide central banks with wider margins to intervene to moderate exchange rate volatility and to provide liquidity to comply with short term commitments. The strengthening of local financial markets and their limited exposure to the international financial crisis will enable payment systems to operate normally. Nevertheless, if the global recession becomes deeper and long lasting, these fundamentals will be tested and, in some cases, could imply significant changes in certain countries' prospects.

International environment

The main industrial economies went into recession in 2008. Although interventions by monetary and fiscal authorities to provide liquidity and recapitalize problem banks were effective in preventing the collapse of the payments system, the negative effects of the crisis on the real sector were felt in 2008 and will possibly intensify in the next months before the recovery phase begins. The financial bailouts and fiscal incentives increased the public sector's financing needs and indebtedness. It is worth mentioning that the United States has more room for fiscal actions than Europe, due to lower debt levels.

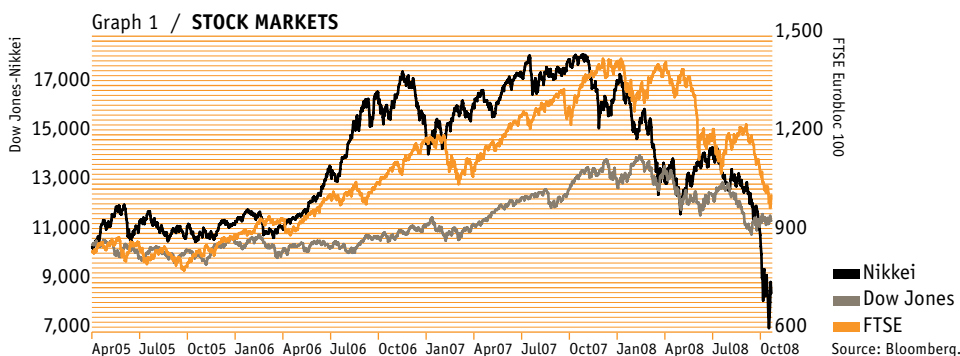
In the United States, the severe destruction of wealth resulting from the fall of stock markets and housing prices weakened the consumption dynamics of households in an environment of higher unemployment and more restrictive credit standards. This reduced the contribution of consumption to growth in 2008, which until 2007 had been relatively stable. It is worth noting that the effectiveness of fiscal incentives and interest rate reductions in reactivating consumption will be limited due to the deleveraging process in households. In addition, there was a contraction of residential and non-residential investment in 2008 as a consequence of falling demand and the considerable deterioration of in-

vestor expectations. On the other hand, exports, which had contributed to the growth of GDP in the first quarter of 2008, declined toward the end of the year as global demand contracted. Thus, the weakening of economic activity which had been circumscribed to the real estate sector until 2007, expanded to other economic sectors during 2008.

The economic situation was not much different in the Euro Zone, Great Britain, and Japan. As in the United States, the tightening of credit conditions and the destruction of wealth in the securities market depressed consumption and investment. Difficulties in real estate activity were followed by a progressive decline in manufacturing activity as exports contracted. Thus, as the year passed, economies such as Ireland, Germany, Great Britain, and Spain, were added to the list of countries that entered into recession. The continued decline of global demand debilitated the Japanese export sector which had stimulated growth in the face of the endemic consumption weakness. The deterioration of industrial activity had a negative effect on investment, pushing the economy toward recession. Thus, the 2009 economic outlook for the industrialized world is rather pessimistic.

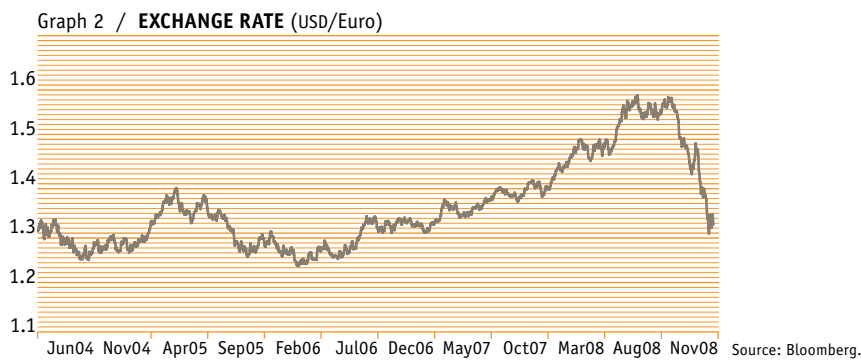
Financial, commodity, and foreign exchange markets

After a short-lived recovery in July and August of 2008, global stock markets collapsed during the second week of October. This marked the beginning of a phase characterized by high degrees of instability, uncertainty, and risk aversion in the stock market. Panic and tightening liquidity led to a wave of sales with investors indiscriminately selling off all assets involving risk. The massive capital mobilization toward safe havens led to accumulated losses of more than 40% in the stock markets of Asia, Europe, and the United States, with record levels of volatility. Initially, financial sector stocks were the most affected, but as panic and forced sales intensified, losses extended to other sectors and to emerging economies.



The spread between LIBOR and the yield on three-month Treasury notes (considered to be the risk-free rate) is an approximate indicator of the risk of loans to the banking system which, under normal conditions, fluctuates between 10 and 50 basis points (bp). Due to the worsening of the crisis, this spread increased to over 400 bp, reflecting the high degree of distrust in the banking system. As expected, this increased the cost of all loans tied to LIBOR. Although aggressive rate cuts and massive liquidity injections by central banks significantly reduced this spread toward the end of the year, it cannot be said that market conditions returned to normality.

The volatility characterizing the financial, stock, and exchange markets also affected the dynamics of commodity prices. With the first symptoms of the crisis in financial markets, futures became an attractive shelter for investors, also enabling them to protect themselves against the increasing inflationary pressures registered during the first half of the year. In an environment of increasing demand and inflexible supply, this shift to commodities created a speculative bubble, which raised the prices of raw materials, particularly oil, to unprecedented levels. As investors discounted the impact that the contraction in the main industrial economies would have on the global demand for oil and commodities, their market prices declined. In addition to this change in fundamentals, the turbulences in financial markets deflated the commodities' bubble, as the wave of forced sales pushed investors to sell their positions in commodity futures.



The deterioration of economic prospects in the Euro Zone and the United Kingdom since mid July strengthened the US dollar against the Euro and the Pound Sterling, reversing the trend toward depreciation experienced by the dollar. The October financial panic consolidated the appreciation of the dollar vis a vis these currencies, as capital mobilization toward safe assets favored three-month Treasury bills, contributing to the strength of the US dollar. The US dollar has shown the same trend with respect to all the more important currencies with the exception of the Japanese Yen. In this case, the high demand for Yen-denominated loans has systematically weakened the US dollar against this currency.

Emerging markets

Even in an environment of worsening credit conditions in international markets and economic deceleration in the United States, emerging economies showed a robust growth during the first half of 2008. However, the financial debacle and the deepening of the global recession had a stronger impact on these economies. The emerging economies of Eastern Europe were probably the most affected due to the dependency of their financial systems on capital from Western Europe.

In Asia, the Chinese economy, which had led the expansion of emerging economies, started to slow down as the deterioration of credit in markets reduced the growth of global demand, trade, and foreign direct investment flows. Even though this country continues to be an attractive market for investment, financing difficulties will limit investment flows in the years to come. In addition, the deterioration of consumer confidence in developed economies due to the fall in housing and stock prices, and uncertainty about labor markets, will weigh on global demand, slowing down growth in the Chinese economy. Faced with this situation, the Chinese economic authorities have announced an ambitious investment plan for 2009 and 2010. In view of this, it is expected that China will continue to grow at high rates, although lower than observed in recent years. This will continue to support Asian growth and will also contribute to mitigating, in part, the fall in other regions of the world.

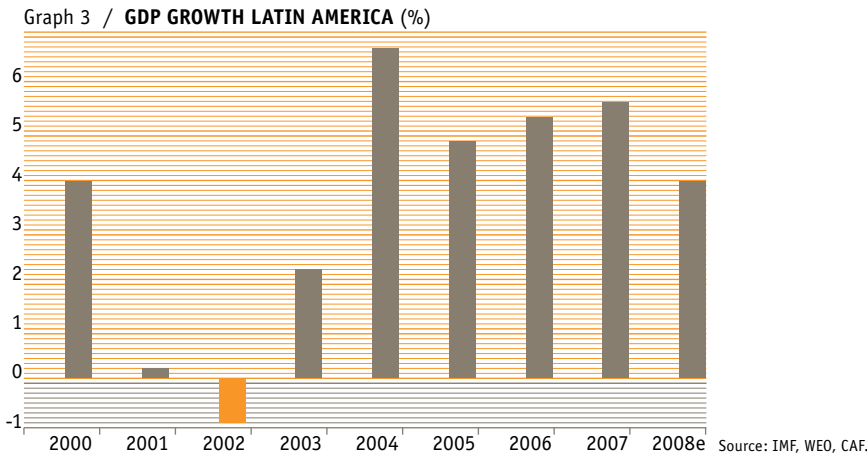
Latin America

Real sector

In 2008, Latin America expanded for the sixth consecutive year. It is also estimated that the product per capita increased for the fifth consecutive year. This growth enabled an improvement in labor indicators as reflected in higher employment rates, decreased informality, and greater wage stability. These improvements in turn led to a reduction of poverty. Nevertheless, GDP in the region growth slowed from 5.6% in 2007 to a little over 4% in 2008.

The loss of dynamism in economic activity was not homogeneous throughout the region and was due to different factors. On the one hand, the fall of external demand associated with the recession of industrial economies affected manufacturing activity in Central America and Mexico more intensely, because manufactured exports of these economies are highly exposed to the economic cycle in the United States. On the other hand, internal aggregate demand was responsible for most of the weakening of activity in South America, except for the cases of Brazil and Peru. The increasing cost of credit, due to the tightening of monetary policy, slowed consumption and investment in many countries of the region. In addition, the fall in employment in the United States led to a reduction of remittances, mainly to Mexico, Central America, the Caribbean, and Ecuador, reducing households' disposable income and thus, consumption.

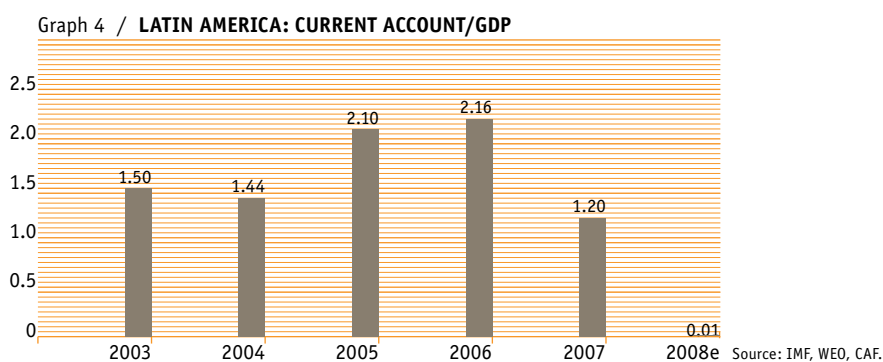
The deterioration of international conditions in years to come will be reflected in lower growth rates. This will lead to an increase in unemployment rates which, together with reductions in public expenditure, will have a negative effect on poverty reduction and other social indicators.



External sector

The terms of trade in the region improved on average again in 2008. Nevertheless, this average hides important differences between countries. The recovery of commodity prices during most of the year translated into an improvement in terms of trade for exporters of these products (Mexico and South America), but not for countries importing these products (Central America and the Caribbean). Thus, some countries closed their year with significant surpluses in their trade accounts, while others saw their deficit widen. Naturally, the phenomenon reversed in the last quarter of 2008 with the collapsing prices of raw materials. In addition, the global deceleration had a negative effect on the region's export volume, particularly in the case of manufactured goods to industrial economies. All this contributed to the deterioration of the trade balance in the region at the close of 2008.

Current account performance was also affected by the behavior of remittances, which had registered sustained growth over the past decade. Starting the second half of the year, the flow of remittances toward the region declined, particularly affecting Caribbean and Central American countries, where remittances represent between 15% and 25% of GDP and constitute an important source of income.

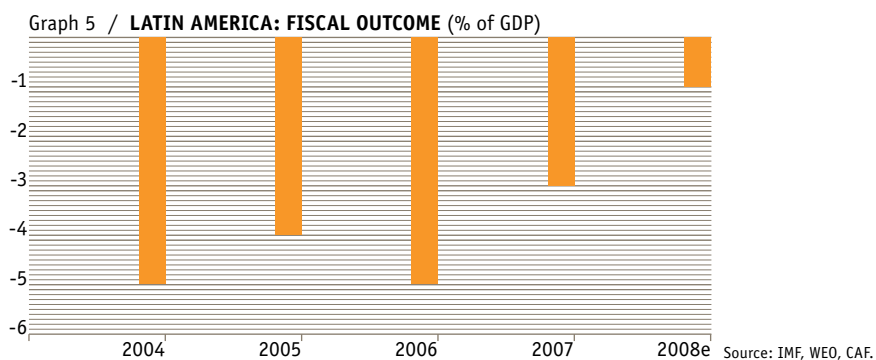


The financial account of the balance of payments also registered an important change during the year. As a whole, the region attracted significant direct investment and portfolio flows during the first three quarters. This situation changed due to the financial crisis, particularly in the case of portfolio investments. The low liquidity and high risk aversion that still prevails in international markets will create difficulties for capital flows toward the region in the short term.

Fiscal accounts

Continued economic growth, increased revenues from commodity exports, and expenditure cutbacks contributed to the improvement of fiscal accounts in the region in 2008. In addition, the reduction in public indebtedness reduced interest payments, alleviating the fiscal burden. Nevertheless, while fiscal accounts in most countries still look healthy, some deterioration is to be expected due to the international crisis.

At the same time, the dependence of fiscal revenues on commodity exports introduces an important element of vulnerability. The fiscal relevance of revenues from the export of primary goods varies from country to country. The decline in fiscal revenues that has been evident since October is expected to intensify in coming months and will be greater than potential expenditure cuts countries may implement. As a result, one can foresee a deterioration of fiscal accounts and increasing financing needs for the economies of the region.



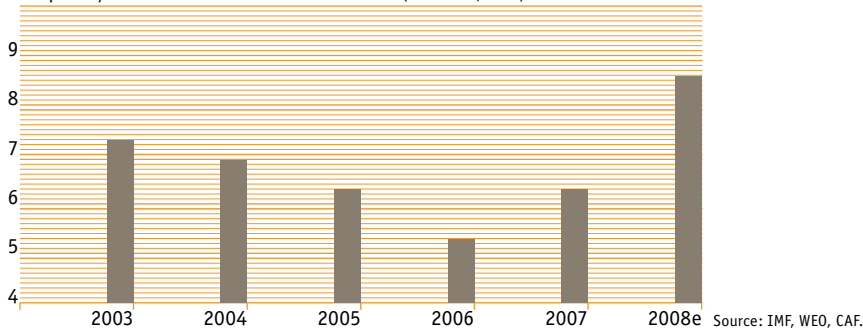
In an international environment where credit is expensive (risk differentials increased significantly during the last quarter) and scarce, one of the main challenges for fiscal authorities will be to implement a debt strategy that does not compromise medium and long term fiscal sustainability. Nevertheless, the reduction of debt levels and greater fiscal discipline in recent years will enable the implementation of counter cyclical policies in some countries. In addition, official financing, especially that of multilateral organizations, will play a key role as a partial substitute for private financing flows that will be scarce due to the difficulties of the financial systems in industrial economies.

Monetary and foreign exchange sector

Inflationary pressures, a consequence on the one hand of the increasing gap between internal demand and domestic supply, and on the other of the rising price of fuels and foods,

started to reverse in the final months of 2008. The rise in inflation motivated most of the central banks in the region to increase interest rates during the first half of the year to restrain demand and prevent increasing commodity prices from affecting the general process of price formation, leading to increasing inflationary expectations. However, the decline of inflation and the financial problems of the last quarter put an end to the restrictive cycle of monetary policy. It is expected that both the deceleration of domestic demand and the decrease in the prices of foods and fuels will keep inflation at bay in most of Latin America in 2009.

Graph 6 / INFLATION IN LATIN AMERICA (% end of period)



Regarding the exchange rate, evidence points to a reversion of the trend toward appreciation which accompanied the expansionary cycle until mid 2008. The combination of international financial instability and portfolio capital outflows in the last quarter resulted in a generalized weakness of the region's main currencies, as well as high volatility in the exchange markets. This currency depreciation represents an important challenge which could include problems of currency mismatches, especially in those countries where the corporate sector contracted debt denominated in foreign currencies and may lack adequate hedging mechanisms. In this area, the region's central banks acted decidedly to facilitate access to foreign currencies by the corporate sector. The Federal Reserve Board of the United States joined in these efforts and granted currency swap lines of up to USD 30 billion to the financial systems in Mexico and Brazil, to avoid larger problems in emerging markets.

Competitiveness and entrepreneurial environment

The region did not improve its competitive position during 2008. According to the competitiveness report of the World Economic Forum (WEF), Latin America on average ranked 83 in a survey of 134 countries. The elements that clearly separated the region from the more competitive countries were the infrastructure gap, technological readiness, innovation capacity, and quality of institutions. In addition, according to the World Bank, Latin America is one of the developing regions where firms face the greatest difficulties in conducting business. Other indicators revealed that the region continues to have problems with low productivity and a lack of export diversification that limits the potential for growth and development. In this sense, the global crisis may be seen as an opportunity to accelerate the necessary reforms to make the region more competitive and less concentrated.

Table 1 / LATIN AMERICA IN THE WORLD ECONOMIC FORUM

Pillars	2007-2008	2008-2009	Change
	Rank out of 131 countries/economies	Rank out of 134 countries/economies	
Global competitiveness index	81	83	▽
Institutions	93	92	△
Infrastructure	81	81	—
Macroeconomy	73	81	▽
Health and Primary education	77	72	△
Higher education and training	80	79	△
Market efficiency	80	84	▽
Technological readiness	78	79	▽
Business sophistication	75	75	—
Innovation	88	90	▽

Source: World Economic Forum.

In summary, 2008 was characterized by a turn in economic trends observed in previous years in Latin America: high and sustained growth rates, strengthening of fiscal and external accounts due to the export and commodities boom, and abundance of low cost credits to cover the region's financing needs. The deterioration of the external environment and the difficulties in international financial markets will lead to lower growth, a reduction of capital flows, and important fiscal and debt challenges. The improved economic fundamentals will help mitigate the impact of the world recession. Nevertheless, the biggest challenge for Latin America will continue to be the construction of a basis for sustained growth that does not depend excessively on commodity cycles and on a few markets for their exports. In addition, in the face of increasing fiscal and debt difficulties, it is imperative to find mechanisms to support the less favored segments of the population and to compensate for the negative effects that declining growth will have on them. Currently, those countries that have managed to save part of the surpluses accumulated in recent years will be in a better position to adopt counter cyclical policies to help mitigate the economic deceleration and to protect the more vulnerable segments of the population.

REGIONAL INTEGRATION

During 2008, the countries of Latin America continued their efforts to deepen the regional integration process and increase their presence in the international economy, in a much more complex global environment than in previous years. The multilateral arena was marked by the collapse of the Doha Development Round of the World Trade Organization, leaving an uncertain future for multilateral negotiations. This disappointing result of seven years of negotiations shows the tensions generated by an ever more globalized world, as well as the conflicts of interest that exist in the developing world.

In recent years, the countries of the region have dedicated considerable effort to achieving Free Trade Agreements (FTAs) with the United States. Even though Colombia, Panama, and Peru successfully negotiated a FTA with the United States, the ratification process of these agreements by the United States Congress has been difficult. The FTA between Peru and the United States received final ratification by the United States Congress in 2007, under the condition that the protection of the environment and labor rights be certified in special clauses. It was only on January 15, 2009, a few days before the end of President Bush's presidency, that the agreement was finally ratified, to enter into force on February 1, 2009. Nevertheless, the FTAs with Colombia and Panama face difficulties in their ratification process due to the complex current economic environment and increasing protectionist pressures in the United States.

In this context, the Andean Trade Promotion and Drug Eradication Act (ATPDEA) continues to be very important for the Andean countries. On the one hand, it is important for Bolivia and Ecuador since they have not negotiated an FTA with the United States and, on the other, it is important for Colombia because of the uncertainty about the ratification process of their agreement. This preferential trade regime, which allows Bolivia, Colombia, Ecuador, and Peru to export several products to the United States market without taxes, started almost two decades ago when the United States decided to grant these tariffs benefit in exchange for a commitment to fight drug trafficking. Toward the end of 2008, the United States decided not to renew the ATPDEA in Bolivia, pointing to the country's lack of cooperation in the fight against drug trafficking.

Latin American countries' objective of achieving trade agreements with the European Union (EU) advances slowly. Most progress has been made in the negotiations between the EU and the Central American countries for an Association Agreement that is expected to be finalized during the first semester of 2009. On the contrary, negotiations between the EU and the Southern Common Market (MERCOSUR) have been suspended due to disagreements on investments, services, and agricultural products. After the collapse of the Doha Development Round, where some of these issues were to be resolved, the future of these negotiations is unclear. Regarding a possible agreement between the EU and the countries of the Andean Community (CAN), after a long preparatory process, negotiations were suspended due to coordination problems between the Andean countries. Nevertheless, the EU has stated its intention to seek bilateral agreements with Colombia and Peru.

In the area of sub regional integration, CAN has been trying to widen its membership, inviting Chile –currently an associate member– to become a full member again, and inviting Mexico and Panama to strengthen their ties with this regional scheme. There is still uncertainty on how to reconcile the already negotiated FTAs, or those that will be negotiated, with CAN regulations. In MERCOSUR, an agreement on a customs code that would have enabled the block to become a true customs union was not achieved. Venezuela continues the process to become a full member as both Brazil and Paraguay have not finalized the ratification process.

A relevant achievement in the area of regional integration was the signature of the Union of South American Nations (UNASUR) Treaty in May, 2008, representing the culmination of four years of regional efforts aiming at strengthening political cooperation between countries to achieve a participative and inclusive regional development. The efforts to consolidate the Bolivarian Alternative for Latin America and the Caribbean (ALBA, in Spanish) should also be highlighted, where membership was expanded to include Honduras.

At the same time, the countries of the region continue strengthening their commercial ties with Asian countries and other non traditional commercial partners. In 2008, Chile signed a FTA with Australia, entering in force January 1, 2009, aimed at joining efforts to compete in the Southeast Asian market. Chile also continues negotiating with Turkey and Malaysia and expects to sign FTAs toward mid 2009. In addition, MERCOSUR signed an agreement with the Southern African Customs Union in 2008 regarding custom duty preferences.

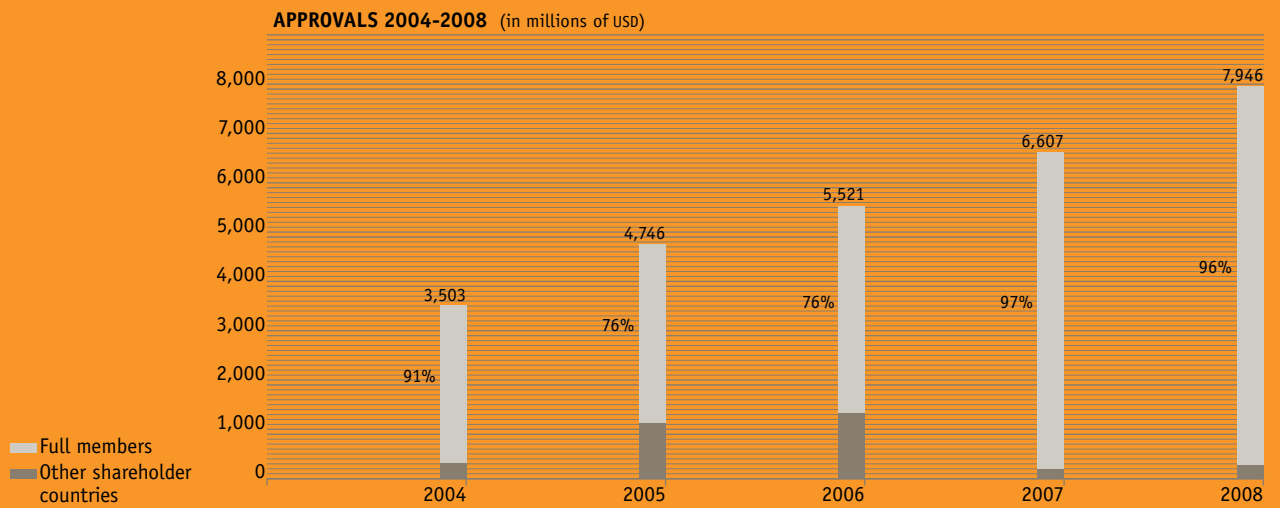
Finally, China's increasing interest in deepening its commercial relations with the countries of the region is worth noting: after signing a FTA with Chile in 2005, it signed an agreement with Peru in 2008, and toward the end of the year started negotiations with Costa Rica.

Undoubtedly, 2008 marked the beginning of great challenges. Due to the global crisis, the region could experience a setback regarding macroeconomic performance and poverty reduction in the years to come, while important changes might be observed in international financial markets. CAF, aware that international insertion and investment increases are key elements for recovering the growth path in the region, reaffirms its commitment to promote sustainable development and regional integration.



Southern Interoceanic Road Corridor, Peru.





CAF's expansion within the region was evidenced by the increased participation of full members, which comprised 96% of approvals during 2008.

During 2008, the Institution enhanced its catalytic role to increase cooperation between Latin America and the rest of the world. Thus, Panama and Paraguay subscribed agreements to become full members, which will result in new capital contributions of USD 360 million. In addition, Portugal signed a Letter of Intent to become a shareholder in the near future. CAF's expansion process was reflected in the increased participation of full members, which concentrated 96 percent of total approvals at year end.

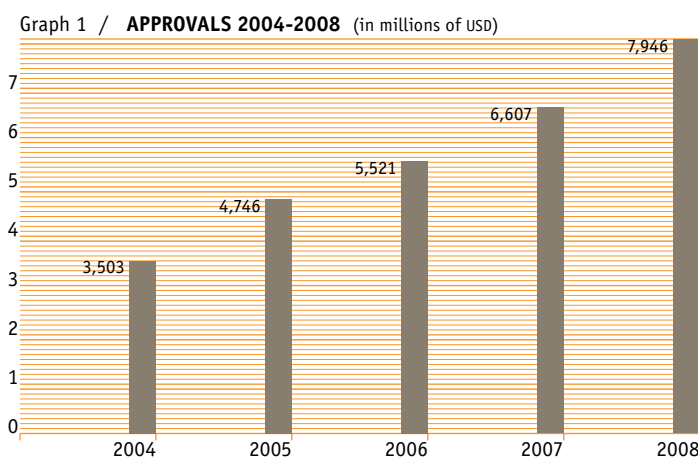
The results achieved translated into a new record level of approvals, which reached USD 7,946 million, consolidating the positive growth trend observed in recent years. At the same time, disbursements totaled USD 5,292 million, and loan portfolio reached USD 10,259 million, the highest level in CAF's history.

From a sectoral perspective, the Institution continued supporting areas of strategic interest, granting financing mainly for the execution of infrastructure and social development projects while responding to an increased demand for resources from the private sector. Allocations to the private sector represented more than 38 percent of total approvals during the year.

In addition, CAF approved USD 38 million through cooperation funds, mostly of a non-reimbursable nature. The Institution assigned these funds mainly to support key initiatives in activities related to the development of micro-finances, increasing competitiveness, promoting democratic governance, community development, promoting culture and heritage rescue, and sustainable development in the broadest sense.

APPROVALS

During 2008, CAF approved operations for USD 7,946 million, an increase of over 20 percent with respect to the previous year, consolidating the positive growth trend of the financial support offered by the Institution to its shareholder countries.



Approvals by country

The consolidation of CAF's activity in Latin America was one of the highlights of the period. Argentina, Brazil, and Uruguay became full members in 2007, followed by Panama and Paraguay in 2008. Thus, USD 7,627 million –96 percent of total approvals– were directed towards full members of the Institution. In turn, approvals to other shareholder countries increased to USD 319 million, and showed a 63 percent increase over the level achieved the previous year. In particular, it is worth noting the beginning of operations in the Dominican Republic, with a loan approval for USD 75 million.

Table 1 / **APPROVALS BY COUNTRY** / (in millions of USD)

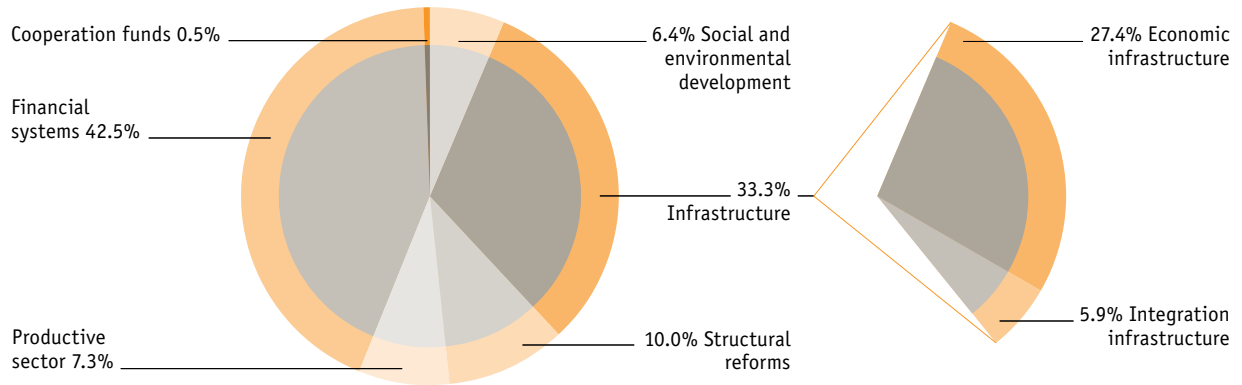
Country	2004	2005	2006	2007	2008	2004-08
Argentina	60	257	580	204	411	1,512
Bolivia	499	523	397	275	560	2,254
Brazil	170	695	579	1,518	1,798	4,760
Colombia	922	1,237	1,001	1,213	1,483	5,855
Costa Rica	63	2	25	128	120	337
Dominican Republic	—	—	—	—	75	75
Ecuador	338	815	1,024	1,089	604	3,870
Mexico	2	5	10	—	10	27
Panamá	1	80	53	—	635	768
Paraguay	11	11	3	—	6	31
Peru	604	417	941	1,180	1,458	4,600
Uruguay	—	70	20	115	601	806
Venezuela	821	627	842	816	72	3,178
Other countries	13	7	46	69	114	249
Total	3,503	4,746	5,521	6,607	7,946	28,323

Approvals by strategic area

During the year, the Institution approved USD 2,640 million for the infrastructure area, in line with the priorities established in the development agendas of shareholder countries. These approvals represented 33 percent of the total, of which 27 percent was aimed at supporting economic infrastructure activities, and the remaining 6 percent to financing integration infrastructure projects among countries.

Worth mentioning are project approvals such as the Railroad Works for Integration between Argentina and Paraguay, the Electrical Interconnection Tarija-Punutuma in Bolivia, the Gualo Puenbo-New Airport Highway in Quito, Ecuador, the Southern Inter-Oceanic Road Corridor in Peru, the Investment Program in the Atlantic Corridor in Costa Rica, the Binational Bridge over the Sixaola River in Panama, and the Program for Strengthening the National Electrical System in Uruguay. The objective of these initiatives is to improve the quality of life of the populations and promote competitiveness and sustainability in the region.

Graph 2 / APPROVALS BY STRATEGIC AREA 2008



Likewise, CAF favored the financing of operations aimed at social development, granting resources for the execution of projects related to the provision of basic services, the development of human and social capital, and the preservation of the environment. Approvals in this area of strategic interest reached more than USD 508 million, that is, six percent of the total approved during the year. Resources were allocated to operations such as the Social and Economic Infrastructure Project in Marginal Areas in Bolivia, the Institute for the Development of Antioquia in Colombia, the Restoration of Hydrographic Basins in Panama, the National Project for Environmental Management and Conservation in Venezuela, and contingent credit lines granted to several countries to address emergencies derived from natural disasters.

In addition, approvals to the financial system area amounted to USD 3,378 million, and were mainly channeled through short- and medium-term credit lines managed by financial institutions to support the development of small and medium-sized enterprises.

Moreover, approvals allocated directly to the productive sectors amounted to USD 579 million and represented almost eight percent of the total. The resources granted seek to provide financing to strengthen competitiveness and expand the region's installed capacity.

CAF also approved USD 800 million to support structural reforms in the countries of the region. Resources were allocated to support the sustainability of the public finances through participation in programs to strengthen public debt management and the quality of fiscal expenditures.

Approvals by economic sector

According to the United Nations' criteria for sectoral classification, at the end of 2008, CAF destined 41 percent of its approvals to support projects in the following sectors: Electricity, Gas, and Water; Transportation, Warehousing and Communications; and Other Social and Health Services. It is worth noting that the Institution has supported the most dynamic and fastest-growing sectors in the region, evidencing not only its alignment with the economic priorities of the nations, but also the timeliness of its response.

Table 2 / **APPROVALS BY ECONOMIC SECTOR*** / (in millions of USD)

	2004	2005	2006	2007	2008	2004-08
Mining and quarries	—	50	20	30	—	100
Manufacturing industries	85	550	257	344	501	1,738
Electricity, gas, and water	626	674	382	1,067	1,230	3,979
Transportation, warehousing, and communications	1,189	1,606	1,625	895	1,556	6,870
Wholesale and retail trade	—	—	—	40	—	40
Public administration	735	700	1,345	180	800	3,760
Hotels and restaurants	2	—	—	—	—	2
Financial intermediation	606	922	1,034	2,649	3,378	8,589
Other social and health services	227	166	791	1,373	440	2,998
Education	—	55	50	—	—	105
Total	3,471	4,723	5,504	6,578	7,905	28,181

*Does not include cooperation and special funds.

Approvals by term

Short and medium-term loans concentrated 60 percent of the year's approvals. Resources from this operational line were aimed at financing foreign trade and working capital operations for the development of the productive sector.

Table 3 / **APPROVALS BY TERM** / (in millions of USD)

	2004	2005	2006	2007	2008	2004-08
Long-term loans	2,682	3,049	4,360	3,618	3,186	16,896
Medium-term loans	62	876	952	46	38	1,974
Short-term loans	758	822	209	2,943	4,722	9,453
Total	3,503	4,746	5,521	6,607	7,946	28,323

In turn, long-term operations concentrated 40 percent of total approvals. Thus, CAF supported financing segments not serviced by other sources, and participated in projects of high impact on the sustainable development of countries. It is worth mentioning that, in recent years, the Institution has extended the financing terms of its loans, adapting to projects with maturities over 15 years.

Approvals by type of risk

During 2008, CAF approvals to the sovereign sector reached USD 3,343 million, that is, a 12 percent increase with respect to the amount registered the previous year. To this respect, one of the Institution's initiatives was to support shareholder countries by providing

Table 4 / **APPROVALS BY TYPE OF RISK** / (in millions of USD)

	2004	2005	2006	2007	2008	2004-08
Sovereign	2,330	2,473	3,791	2,984	3,343	14,922
Non-sovereign	1,172	2,273	1,730	3,622	4,603	13,400
Total	3,503	4,746	5,521	6,607	7,946	28,323

contingent credit lines with financing in case they face difficulties accessing international financial markets. Thus, 42 percent of the year's approvals was aimed at this sector. Likewise, approvals to the non-sovereign sector reached USD 4,603 million, and showed a 27 percent increase with respect to the amount observed in 2007. Of this amount, USD 2,532 million were allocated to the financial sector, which demanded short-term resources with greater intensity during the second half of the year due to the turbulence in capital markets that affected the financial flows toward the region. Thus, approvals to the non-sovereign sector represented 58 percent of the total approved in 2008.

Contingent credit line

During 2008, CAF acted rapidly to mitigate the effects of the worldwide financial crisis over the region. To this respect, the Institution offered a contingent credit line of USD 1,500 million, to support the governments' financing strategy, through a preventive financing instrument that grants resources to shareholder countries, in the event of difficulties to access financing in capital markets.

Thus, the Institution demonstrates its adaptability, foreseeing the requirements of shareholder countries, given the deterioration of the international financial situation and the potential effect it might have over its performance in the short term.

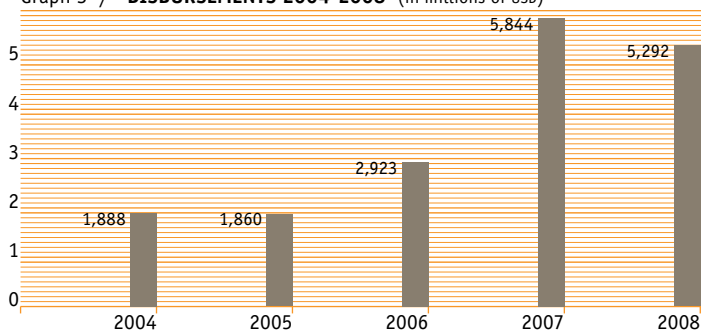
DISBURSEMENTS

At year-end 2008, CAF disbursements reached USD 5,292 million, that is, a nine percent decrease with respect to the amount disbursed the previous year. Ninety five percent was disbursed to the Institution's full members. In turn, disbursements to other shareholder countries concentrated the remaining five percent, and reached USD 282 million at the end of the period. The level of disbursements was considerably higher than the average of the last five years, evidencing the enhancement of the Institution's regional scope.

Table 6 / **DISBURSEMENTS BY COUNTRY** / (in millions of USD)

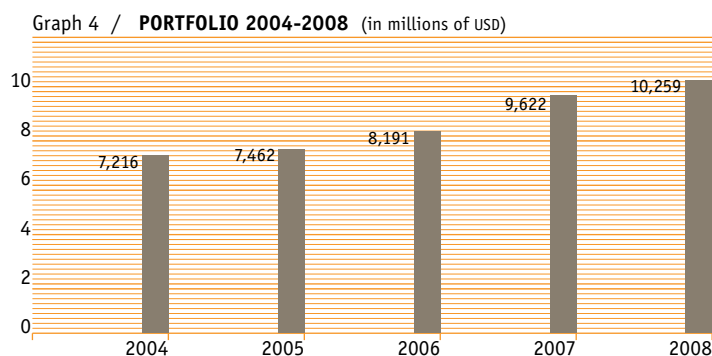
	2004	2005	2006	2007	2008	2004-08
Argentina	—	34	64	333	294	725
Bolivia	233	198	175	197	444	1,247
Brazil	16	105	132	879	951	2,083
Colombia	533	688	653	968	892	3,734
Costa Rica	—	12	19	8	86	125
Dominican Republic	—	—	—	—	55	55
Ecuador	297	340	504	1,416	443	3,001
Panama	4	1	23	38	16	82
Paraguay	15	5	1	8	8	36
Peru	464	255	483	1,730	1,531	4,464
Uruguay	6	4	11	62	170	251
Venezuela	309	208	845	127	260	1,749
Other countries	12	11	12	79	141	254
Total	1,888	1,860	2,923	5,844	5,292	17,806

Graph 3 / **DISBURSEMENTS 2004-2008** (in millions of USD)



PORTFOLIO

At the end of 2008, CAF's portfolio reached USD 10,259 million, a seven percent increase with respect to the amount registered in 2007. For the sixth consecutive year, the growth of this portfolio marked a new record for the Institution, and maintained the positive trend of recent years.



Portfolio by country

The growth of the portfolio demonstrated the economic dynamism experienced by Latin American countries in 2008. Thus, the portfolio allocated to full members reached USD 10,004 million at year-end and represented 98 percent of the Institution's total portfolio.

Table 7 / **PORTFOLIO BY COUNTRY** / (in millions of USD)

	2004	2005	2006	2007	2008
Argentina	—	34	98	421	693
Bolivia	936	989	1,031	1,048	1,110
Brazil	297	245	323	807	825
Colombia	1,701	1,901	1,620	1,633	1,707
Costa Rica	1	11	25	22	107
Dominican Republic	—	—	—	—	55
Ecuador	1,225	1,231	1,371	2,150	2,018
Panama	33	25	38	63	72
Paraguay	53	48	41	39	37
Peru	1,661	1,722	1,806	1,809	1,774
Uruguay	20	24	31	62	232
Venezuela	1,197	1,135	1,724	1,470	1,535
Other countries	92	96	84	98	99
Total	7,216	7,462	8,191	9,622	10,259

Portfolio by economic sector

Contributing to the development of infrastructure and social development of shareholder countries is one of CAF's main strategic lines. To this respect, loans granted to the transportation, warehousing, and communications; electricity, gas, and water; and educa-

tion, social services and health sectors, increased to USD 6,945 million and represented 68 percent of the year's portfolio.

In turn, the portfolio assigned to the commercial banking and development institutions sectors increased to USD 1,667, representing 16 percent of the total. The increase responded to the Institution's interest in supporting the expansion of the productive sector, especially the small and medium-sized enterprises, as a fundamental economic development mechanism of the countries of the region.

Table 8 / **PORTFOLIO BY ECONOMIC SECTOR** / (in millions of USD)

	2004	2005	2006	2007	2008
Agricultural infrastructure	258	217	142	113	88
Mining and quarries	14	10	60	70	70
Manufacturing industry	163	169	193	279	416
Electricity, gas, and water	917	932	985	1,079	2,004
Transportation, warehousing, and communications	2,785	2,751	3,190	3,103	3,201
Commercial banking	332	493	431	1,512	1,457
Development institutions	366	275	312	249	210
Education, social, and health services	1,647	1,702	1,671	1,945	1,740
Other activities	735	914	1,206	1,272	1,075
Total	7,216	7,462	8,191	9,622	10,259

Portfolio by term

As in previous years, CAF allocated most of its loan portfolio to support long-term operations, in order to contribute to the creation of economic infrastructure and social development. Thus, at year-end 2008, the long-term portfolio reached USD 8,472 million and represented 83 percent of the total. If the medium-term portfolio and capital investments are added, the amount reaches USD 9,207 million and represents 90 percent of the total portfolio. Thus, the Institution contributes to satisfying the region's financing needs which otherwise would not be easily addressed through other financing sources.

Likewise, the short-term portfolio reached USD 1,052 million, representing 10 percent of the total at the end of 2008.

Table 9 / **PORTFOLIO BY TERM** / (in millions of USD)

	2004	2005	2006	2007	2008
Capital investments	112	115	93	74	75
Loans	7,104	7,347	8,097	9,548	10,184
Long-term	6,863	6,953	7,456	7,868	8,472
Medium-term	91	55	189	377	660
Short-term	150	339	452	1,303	1,052
Total	7,216	7,462	8,191	9,622	10,259

Portfolio by type of risk

One of CAF's priorities is to satisfy the credit requirements of the sovereign sector. To this respect, the portfolio allocated to this sector reached USD 7,543 million at year-end 2008, representing 74 percent of the total. The amount reflects the cumulative effort, resulting from the Institution's close relationship with shareholders and clients, which is periodically renewed through programming missions to identify the priorities of the countries' development agendas.

Table 10 / **PORTFOLIO BY TYPE OF RISK** / (in millions of USD)

	2004	2005	2006	2007	2008
Sovereign	6,456	6,601	7,072	7,249	7,543
Non-sovereign	760	861	1,118	2,373	2,716
Total	7,216	7,462	8,190	9,622	10,259

In turn, the beneficiaries of non-sovereign risk loans represented 26 percent of the loan portfolio, reaffirming the Institution's commitment to support private sector growth that translates into improvements of the levels of competitiveness. It is worth mentioning the loans granted to sub-national governments without sovereign guarantee, as they reflect the growing financial and managerial strength of some of these governments in an effort to enhance decentralization and improve the quality of sub-national public administration.

COOPERATION FUNDS

Assistance through cooperation funds is a comprehensive part of the financial services provided by the Institution to public and private sector clients of shareholder countries. The allocation of cooperation funds constitutes an important tool to support countries and provides, among others, the following advantages: i) ensuring the quality of investment projects, ii) providing capacity building assistance and self sustainability of communities, iii) improving the competitiveness of productive chains, iv) preserving the environment, and v) increasing social capital, and improving the managerial capacity in small and micro enterprises.

Table 11 / **MAIN COOPERATION FUNDS MANAGED BY CAF** / (in millions of USD)

Technical Assistance Fund (FAT)	21.1
Human Development Fund (FONDESHU)	5.1
Fund for the Promotion of Sustainable Infrastructure Projects (PROINFRA)	6.7
Bolivia Special Fund (FEB)*	1.5
Ecuador Special Fund (FEE)	2.0
Cross Border Cooperation and Integration Fund (COPIF)	0.5
Other funds**	1.0
Total	37.9

*Includes funds assigned to the program Highly Indebted Poor Countries (HIPC).

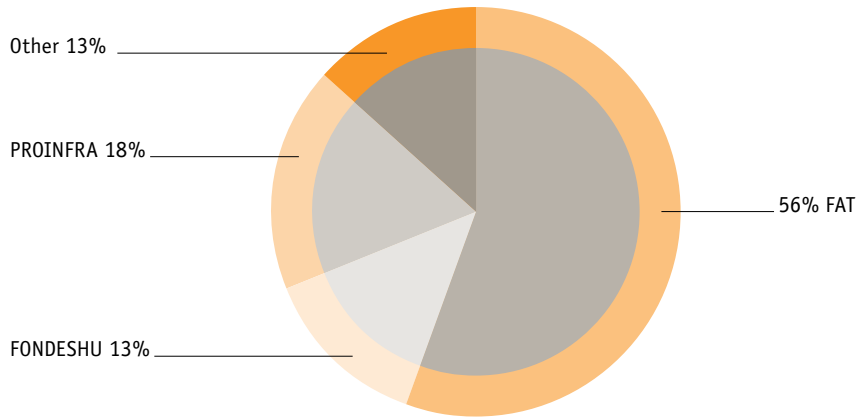
**Includes the Spanish Technical Cooperation Fund, and the Andean Energy Conservation Fund (FACE).

Main cooperation funds

Technical Assistance Fund (FAT)	Concentrates most of the special sources of financing. Its mission is to provide support for projects and programs in shareholder countries.
Human Development Fund (FONDESHU)	Provides financial support for the implementation of high impact, innovative, and productive community projects aimed at the most vulnerable social sectors.
Fund for the Promotion of Sustainable Infrastructure Projects (PROINFRA)	Allocates resources to finance diagnostic studies of sectoral issues, appropriate technology, and pre-investment studies for integration infrastructure projects, previously prioritized by the countries. Resources are assigned to projects that promote regional integration infrastructure, incorporating innovative financing mechanisms.
Bolivia Special Fund (FEB) and Ecuador Special Fund (FEE)	Finance the technical assistance and economic priorities in these countries. Created in 1998, both Funds are included in CAF's Establishing Agreement.
Canadian Agency Fund (ACDI) and Spanish Technical Cooperation Fund (FECT)	Represent financing sources for the region's development through Canadian and Spanish consulting firms. The Spanish Ministry of Economy manages the operations of the Spanish contribution, while the Canadian International Development Agency (CIDA) operates from the Canadian Embassies in each of the requesting countries.
Andean Energy Conservation Fund (FACE)	Provides resources for consulting and training in the area of energy source conservation in the Andean countries.
German Fund or Kreditanstalt für Wiederaufbau (KfW)	Allocates resources for consulting on integration projects in the least favored regions of CAF member countries.
Cross Border Cooperation and Integration Fund (COPIF)	Supports the timely identification, preparation, and execution of projects of high impact that promote sustainable human development in the border regions of member countries. Contributes to the strengthening of cooperation, dialogue, mutual trust, and cross border integration both at a bilateral and multi-lateral level.

During 2008, approvals channeled through cooperation funds reached approximately USD 38 million. Of this amount, CAF assigned resources to promote activities aimed at improving competitiveness, strengthening best practices in corporate governance, supporting the public policy agendas in the region, and contributing to the generation of knowledge that promotes development.

Graph 5 / SOURCES OF THE MAIN COOPERATION FUNDS 2008



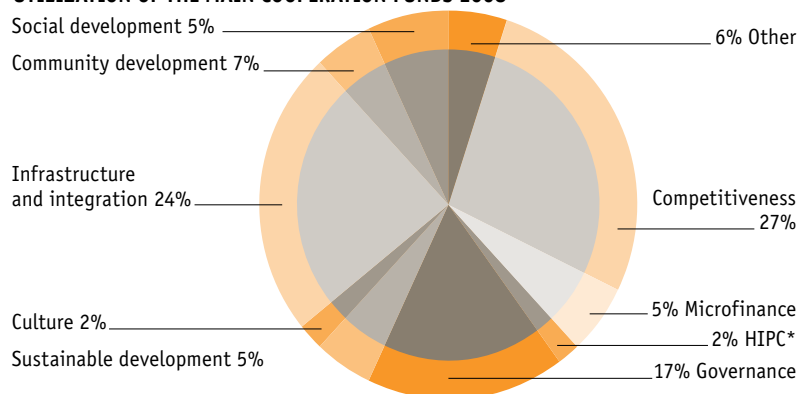
Likewise, the Institution supported the development of pre-investment studies in the area of economic and integration infrastructure. Along the same lines, it approved the creation of the Cross-Border Cooperation and Integration Fund (COPIF, in Spanish), aimed at the identification, preparation, and execution of projects that promote development in border areas.

In its role of providing institutional support in the region, CAF granted resources in order to develop spaces to strengthen democratic governance in the countries and increase citizen co-existence through dialogue and consensus building processes.

CAF also strengthened its activities in the area of cultural and community development, providing musical, sports, skill-building, and heritage recovery training to the least favored sectors of the population.

In addition, the Institution allocated cooperation resources to support activities in the environmental and social development areas, aimed at helping and catalyzing the countries' efforts in projects related to potable water, sanitation, education, and health.

Graph 6 / UTILIZATION OF THE MAIN COOPERATION FUNDS 2008



* Highly Indebted Poor Countries.

SPECIAL FUNDS

CAF supports projects and initiatives through funds of a different nature than the cooperation funds. Among others, it is worth mentioning: the Entrepreneurial Investment and Development Fund (FIDE), the Compensatory Financing Fund (FFC), and the Latin American Carbon, Clean and Alternative Energies Program (PLAC^{+e})

The FIDE supports the strengthening of the capital base of small and medium sized enterprises through capital, quasi capital, and credit operations. Activities are implemented through alliances with venture capital funds, banks, large industries, and guarantee funds which, in turn, make capital investments in the Small and Medium-Sized Enterprises (SMEs) of the region.

In 2008, the Institution approved over USD 7 million through the FIDE to promote venture capital related activities. The amount was allocated to three venture capital funds and one guarantee fund.

In turn, the FFC promotes the execution of projects aimed at reducing regional asymmetries, helping excluded populations, and promoting the integration of regional infrastructure. Through this fund, CAF allocates resources to reduce the financial costs of projects that meet certain eligibility criteria, without affecting the Institution's profitability.

Likewise, the PLAC^{+e} is a self sustainable initiative to support and strengthen national institutions and mechanisms to stimulate the use of the different Greenhouse Gases markets, by identifying, developing, and financing projects related to clean and alternative energies, as well as energy efficiency in Latin America.

During 2008, the PLAC^{+e} catalyzed financial resources derived from the sale of CO_{2e} reductions for approximately EU 35 million to benefit the projects it supported, while generating own income for USD 3.3 million, that will be reinvested into this program.

5

Operations by country



Argentina

in USD million

	2008	2004-2008
Approvals	411	1,512
<i>Sovereign risk</i>	375	1,355
<i>Non sovereign risk</i>	36	157
Disbursements	294	725
<i>Sovereign risk</i>	286	712
<i>Non sovereign risk</i>	8	13

in USD million

	2008
Portfolio	693
<i>Sovereign risk</i>	680
<i>Non sovereign risk</i>	13



La Picasa Railroad Project supports the rehabilitation of an important section of the Buenos Aires-Mendoza line, which is a part of the Group 3 projects of the MERCOSUR-Chile Axis of the IIRSA Initiative. The project concluded in November, 2008.

Since Argentina's incorporation in 2001, CAF's action in the country has been fundamentally aimed at supporting high impact integration infrastructure to strengthen the country's competitiveness. In this sense, the Institution has partially financed projects that are a part of the IIRSA Initiative.

Argentina's incorporation as a full member in 2007 increases the possibilities of CAF support to other strategic sectors, and enables the expansion of the Institution's presence in areas that are a priority for the development of social infrastructure.

In addition, the Institution is able to expand its support for private sector initiatives through innovative financing mechanisms and assistance in structuring projects that promote the country's development.

During 2008, most of the resources granted to Argentina were aimed at developing *economic and integration infrastructure* projects, specifically in the energy and transportation sectors. It is worth noting the approval of USD 100 million, to partially finance the Railroad Works Program for the integration of Argentina and Paraguay, where the Yacyretá Binational Entity (EBY) acts as executing agency. The Program complements the Yacyretá Completion Plan (PTY), whose objective is to build the complementary and mitigation works needed to reach the definitive design height to take energy generation of Yacyretá to its optimal level. This implies relocating the rail and road infrastructure which would otherwise be covered by the rising water level.

In addition, the Institution approved USD 275 million for the development of the 'Wide approach sectoral program: electric sector'. Resources will be allocated to partially support public investment in the Energy Transportation Federal Plan aimed at improving energy transportation conditions in the country and optimizing the electric interconnection network at the national level. A part of the loan will also be used to finance studies for the development of a Strategic Energy Plan for the country.

The Institution also supported the *Banco de Inversión y Comercio Exterior* (BICE) in the area of international financing and credit rating to facilitate the entity's access to capital markets.

In order to contribute to the development of the *SME and microfinance sector*, CAF granted resources to *Fondo de Garantías* (FOGABA), to finance investments in risk capital funds, as well as to *FIE Gran Poder*, the Bros Mark Venture Fund, and the PymAR Fund to finance guarantee funds and entities that support MSMEs.

Approvals to Argentina. 2008 (in millions of usd)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Republic of Argentina-Ministry of Economy and Production (MECON), through the National Directorate of Projects with International Credit Organizations (DNPOIC) of the Economic Policy Secretariat	Wide Approach Program: electric sector	Partially finance the National Government budget earmarked for the Federal Energy Transportation Plan, which aims at improving the energy transportation conditions and optimizing the interconnection of the electrical network nationwide. The loan will also finance studies for the development of a long-term Strategic Energy Plan.	275	12
Republic of Argentina-Yacretá Binational Entity (EBY)	Railroad construction program for the integration between Argentina and Paraguay	Rehabilitate the railroad infrastructure and other investments aimed at improving efficiency and operations of the General Urquiza railroad in the border city of Posadas, and its connection with Encarnación (Paraguay).	100	15
Banco BICE	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital for the development of the productive sector.	35	Various
Various clients	Other operations with cooperation resources	Various	0.5	
Total			411	

Other contributions to Argentina's sustainable development

During 2008, CAF granted approximately USD 560,000 to Argentina in cooperation funds. Resources were channeled directly to the beneficiaries through special programs developed by the Institution as described below.

Infrastructure

- Conducted a workshop on "Strategic analysis of private investment scenarios in the electricity sector in Argentina" to identify options that will enable the participation of the private sector in financing and undertaking investments for the development of the electric system in Argentina.

During the workshop, a diagnosis of the energy situation was prepared, the barriers and obstacles to investment were discussed, and the needs and opportunities for private investment were identified. The Secretary of Energy and other important authorities and representatives of the electricity sector participated in the workshop.

- Conducted a workshop on Latin American road maintenance and management. The workshop benefited from the participation of more than 200 officials of national and regional governments from Argentina, Bolivia, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, and Uruguay.

Corporate governance

- Developed a methodology that contributes to the implementation of best practices of corporate governance in Argentinean enterprises and banks.



The executive director of the Yacyretá Binational Entity, Oscar Thomas, and CAF's Executive President, Enrique García, during the press conference for the signature of the loan contract for USD 110 million to finance the execution of a set of priority projects in the framework of the Road Works Program for the Integration of Argentina and Paraguay.

Social responsibility

- Implemented the Recuperar Project in alliance with the International Organization for Migration.

The project contributes to the prevention and eradication of child labor in 70 migrant families –especially those devoted to recycling and garbage recovery– in Villa 31 and Villa 31(bis) in the city of Buenos Aires, by improving family incomes through the creation and strengthening of micro enterprises.

In addition, it supports the legalization of the 550 migrants.

SME and microfinance

- Supported and participated in the Annual Forum of the Argentinean Microfinance Network, and in the ‘Groundwork for the Argentina of the Bicentennial’ seminar, organized by Fundación Mediterránea.
- Supported a study on the availability of public financing for SMEs in six provinces in Argentina, conducted by the *Instituto de Estudios sobre la Realidad Argentina y Latinoamericana* (IERAL).

Governance

- Implemented the Governance and Political Management Program with the George Washington University, through an alliance with Universidad San Andrés, and Universidad Nacional del Rosario.

The first graduating class had 200 participants who received a comprehensive training on the problems of development, including technical issues, negotiation skills, and viability of solutions from a political, economic, and social point of view.

Other activities

- Developed studies to support the Plan for the Development of Sustainable Tourism in the province of Jujuy.
- Supported the Ministry of Federal Planning in the implementation of the project for the Improvement of Competitiveness, Development, and Management of the National Urban System-Phase I, in charge of the Undersecretary of Territorial Planning of Public Investment.
- Supported the development of a Bi-national Border Plan for the provinces of Jujuy and Salta in Argentina, and the Departments of Potosí and Tarija in Bolivia.



Rural Tourism Network Project.



The tourism development plan of *Jujuy*, undertaken by the Secretariat of Tourism, seeks to expand the supply of tourist services in the region. Opportunities have been created for community development through the Rural Tourism Network Project, creating the *Las Queñoas* Community Tourism Association in *Jujuy*, and *La Apacheta* United Communities Tourism Association in *Salta*.



Bolivia

in USD million

	2008	2004-2008
Approvals	560	2,254
<i>Sovereign risk</i>	364	1,570
<i>Non sovereign risk</i>	196	684
Disbursements	444	1,247
<i>Sovereign risk</i>	382	945
<i>Non sovereign risk</i>	62	302

in USD million

	2008
Portfolio	1,110
<i>Sovereign risk</i>	947
<i>Non sovereign risk</i>	163



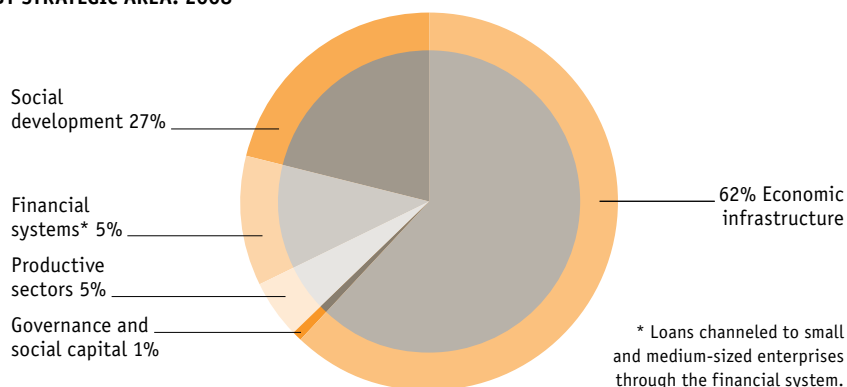
The viaduct under construction in La Paz will connect the high areas surrounding the valleys of Orkojahuira, Choqueyapu, and Kantutani, located between the East and West sides of the city. The connection will be possible through a three-span 700 meter structure, creating the so-called *Puente Trillizos*.

During 2008, CAF approved USD 349 million to Bolivia for the development of *infrastructure* projects and programs, which represented 62 percent of the total resources approved for the country. It is worth mentioning the financing of USD 44 million to the Electric Interconnection Tarija-Punutuma project. The project will enable the integration of the region of Tarija to the National Interconnected System, supplying the population with a more reliable, clean, and less expensive energy, therefore contributing to its welfare. CAF also approved USD 250 million to support the Social and Economic Infrastructure Program for Marginal Zones. Of this amount, USD 205 million will be allocated to finance infrastructure investments as part of the fiscal expenditure to promote the country's development.

CAF also assigned USD 152 million to attend *social development* projects. Of that amount, USD 50 million were assigned to the Water, Sanitation, and Drainage Program to support the Bolivian government in developing and undertaking studies and priority projects of equity and social inclusion in the potable water, basic sanitation, urban drainage, irrigation, and rural development sectors in various cities and regions. In addition, CAF assigned a contingent credit line for USD 20 million to address emergencies derived from natural disasters to rehabilitate damages to infrastructures and develop preventive measures. From the Social and Economic Infrastructure Program, USD 45 million were allocated to finance social development investments.

In addition, the Institution directed USD 53 million to the *productive and financial* sectors to promote private investment initiatives, and finance working capital and foreign trade operations. It is worth mentioning the Expansion Project for the Transmission Lines of *La Arboleda* Substation, of key importance for the National Electric System, which will meet the energy requirements of the northern area of the Department of Santa Cruz. Regarding the financing of working capital and foreign trade operations, CAF channeled USD 27 million through the financial system to address mainly the needs of the SMEs under the premise that a solid entrepreneurial base will enable Bolivia to face the challenges of a greater commercial integration with the rest of the world.

APPROVALS BY STRATEGIC AREA. 2008



Approvals to Bolivia. 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Republic of Bolivia- Ministry of Planning and Development	Social and economic infrastructure program in marginal areas	Support the National Development Plan, prepared by the Bolivian Govern- ment, through social, productive, and infrastructure investments, contri- buting to the allocation of fiscal expenditure as a means of promoting so- cioeconomic development, seeking equity in the distribution of public resources, with emphasis on rural investments as well as on the reduction of regional assymetries.	250	18
Republic of Bolivia- Ministry of Water	Water, sanitation, and drainage program	Support the Bolivian Government in the development and execution of stu- dies and priority projects related to equity and social inclusion in sectors such as potable water, basic sanitation and urban drainage, and irrigation and rural development in various cities and regions.	50	18
Republic of Bolivia- National Power Com- pany	Tarija-Punutuma elec- trical interconnection	Enable the integration of Tarija to the National Interconnected System. The population of Tarija will have a more reliable, clean, and economic energy supply thus increasing the population's welfare.	44	15
Republic of Bolivia- Ministry of Planning and Development	Contingent line of credit to attend natu- ral emergencies	Mitigate risks associated to natural disasters by means of a contingent ins- trument that provides resources to rehabilitate infrastructure and design prevention measures.	20	18
Interconexión Eléctrica, S.A.-ISA Bolivia	Corporate long-term loan	Partially finance the expansion of the La Arboleda substation project, to meet the energy requirements of the northern area of the Santa Cruz de- partment.	3	11
ADM, Sao	Trade, working capi- tal, and investment projects financing	Finance investment projects, as well as foreign trade operations and wor- king capital of the productive sector.	20	Various
Transredes	Corporate long-term loan	Transport natural gas from the Northern fields, located in the departments of Cochabamba and Santa Cruz, to the city of Cochabamba, and continue through the Gasoducto del Altiplano (GAA) to Oruro and La Paz.	100	15
Tahaumanu	Trade, working capi- tal, and investment projects financing	Finance investment projects, as well as foreign trade operations and wor- king capital.	3	Various
Banco Mercantil; BISA Banco Indus- trial, S.A.; Banco Na- cional; Banco Econó- mico	Trade, working capi- tal, and investment projects financing	Finance investment projects, as well as foreign trade operations and wor- king capital of the productive sector.	27	Various
Banco Solidario (BANCOSOL); FIE FFP; Prodem FFP; FFP Eco- futuro; Banco Los Andes Procredit; Crédito con Educa- ción Rural CRECER	Trade, working capi- tal, and investment projects financing for small and medium sized enterprises	Finance working capital operations and purchases of capital goods to enable the development of microenterprises.	37	Various
Various clients	Other operations with cooperation resources	Various	6	
Total			560	

Other contributions to the sustainable development of Bolivia

During 2008, CAF granted USD 6 million to Bolivia in cooperation funds. Resources were channeled directly to the beneficiaries or through the different special programs developed by the Institution, described below.



Infrastructure

- Supported the Bolivian Highway Administrator (ABC) by establishing a team of specialists to design processes and general management procedures, as well as to facilitate transfer of knowledge, identification of training opportunities, and detection of human and technical resources needs to improve the organization's efficiency.

Through this program, it is expected that ABC will strengthen its planning and management processes, ensuring a comprehensive improvement in the development of infrastructure from a technical, social, and environmental point of view.

The Bolivian Highway Administrator is the authority in charge of planning and managing the Red Vial Fundamental and its accesses.

Social development

- Supported the IV National Contest of Women Against Poverty, with emphasis on food security. For the fourth consecutive year, CAF has promoted sustainable business development and market access to women's organizations in Bolivian rural areas through contests and the dissemination of successful initiatives.
- Supported the international workshop 'Programs to Eradicate Extreme Poverty: Experiences and Proposals'.
- Supported the II Water Contest: Use, Management, and Preservation. The government of Bolivia rewards the good use, management, and preservation of water presented by social groups in rural areas as creative initiatives to improve their living conditions.
- Supported the seminar 'International and National Migrations: causes, processes, and effects'.

Bolivia's President Evo Morales, visiting CAF Headquarters where he held a working meeting with the Institution's Executive President, Enrique García. Caracas, Venezuela, January 26.

Competitiveness

Competitiveness Program

- Allocated resources to the Ministry of Development Planning and its Competitiveness Departmental Councils through the project 'Innovative and connected Bolivia for a comprehensive development', aimed at connecting productive chains in each department.
- Supported the 'III Entrepreneurial Investment Fair', that seeks to promote a reduction of transaction costs between the main enterprises in Bolivia and the small- and medium-sized entrepreneurs that conform the supply chains.
- Promoted the economic development of the Department of La Paz through the implementation of two projects that support productive activities with comparative advantages and a strong social component.
- Supported the improvement of enterprise creation processes through the design and publication of a 'Methodological Guide for the Simplification of Municipal Permits', and its dissemination and application among the various municipal authorities

Governance

Governance and Political Management Program

- Renewed the agreement with *Universidad del Valle* for eighth consecutive year, to continue the implementation of the training program for 278 individuals in political management and municipal administration.

Leadership for Change Program

- Trained 597 natural leaders of 14 cities through an alliance with Fundación IDEA.

Regional Program for Updating and Improving Local Management

- Developed a comprehensive diagnosis of the municipalities of Tarija, Trinidad, and Warnes, to improve local managerial capacity and increase their own resources to address citizen demands.

Tools for Governance and Consensus Building Program

- Organized the Persuasive Negotiation symposium for 1,150 participants of the Governance and Political Management and Leadership for Change Programs.

Social Responsibility

Social Action for Music Program

- Educated 1,600 children and youths through traveling conservatories of instrumental and choral music, and luthiers training in Santa Cruz de la Sierra, El Alto, San Ignacio, San José de Chiquito, Santa Ana, Tarija, Yacuiba, and La Paz.

Local opportunities

- Supported the process to improve sanitation and nutrition of 13,000 school children in El Alto and Potosi, renovating the schools and health centers of these cities to connect to the natural gas network.
- Concluded the training process in health and women's rights of 4,200 Aymaras and Quechua women from Calamarca and Morochata.

Basic skills training

- Trained 150 youths in Chiquitanía, Potosi, and Sucre, in alliance with AECID.

Sports training

- Continued training 1,200 children in alliance with the Academia Tahuachi.

Environment

BioCAF Program

- Provided technical assistance to achieve a sustainable and productive exploitation of the alligator (yacare caiman) and the capybara (hydrochaeris) with Fundación Amigos de la Naturaleza.
- Provided technical assistance to create citizenship with environmental sensitivity and public environmental responsibility, with Fundación Amigos del Museo Noel Kempff Mercado and Sociedad Boliviana de Derecho Ambiental.

- Strengthened the socio-environmental management in the South-East Bolivia development area, and regional exchange of experiences in the management of protected areas with SERNAP.

PLAC^{te}

- Promoted the carbon market in Bolivia and the development of the Social and Environmental Responsibility Exchange with the Bolivian Stock Exchange.
- Supported the participation of two experts of the Clean Development Office in Bolivia in the 2008 Carbon Expo, an event that facilitated contact with the main actors in the carbon market.
- Conducted a pre-investment study for a metropolitan sanitary landfill for La Paz, El Alto, and surrounding municipalities, in alliance with the Ministry of Water-Vice ministry of Basic Services.



Chapare's fruit market. Cochabamba, Bolivia.



Through its Social Responsibility Program, CAF provides training to enable basic abilities in vulnerable sectors, in order to alleviate poverty and improve the quality of life of the population.



Brazil

in USD million

	2008	2004-2008
Approvals	1,798	4,760
Sovereign risk	100	589
Non sovereign risk	1,698	4,171
Disbursements	951	2,083
Sovereign risk	37	41
Non sovereign risk	914	2,042

in USD million

	2008
Portfolio	825
Sovereign risk	103
Non sovereign risk	722



The *Voces Andinas a Coro* workshop, held in São Paulo, is part of the expansion of CAF's musical program to the *favelas* of Brazil.

During 2008, CAF allocated USD 1,095 million to the *financial systems* of Brazil to finance investment projects, and foreign trade and working capital operations of enterprises belonging to sectors with high value added.

In addition, CAF allocated USD 700 million to the *economic infrastructure* area. Of this total, the Institution signed an A/B loan contract for USD 600 million to partially finance *Centrais Eléctricas Brasileiras, S.A.* (ELECTROBRAS) investment plan, an enterprise of strategic importance for the development of the electric sector in Brazil. The operation constitutes the largest transaction approved by CAF through this type of financing, and the largest A/B loan of the Brazilian market in the year.

The Institution also allocated USD 100 million to the State of Paraíba for the implementation of the *Nuevos Caminos* Program for Pavement and Highway Recovery. The program includes the rehabilitation and pavement of highways to integrate marginal rural areas with others in a more favorable condition. It is expected that the investment in infrastructure will stimulate trade and substantially improve the population's quality of life.

CAF also assigned USD 3 million to the MICROFIN Fund, to finance working capital for the development of the microfinancing sector in the country.

As a part of the Program to Support Municipal Governments (PRAM) approved in 2006, the Institution authorized USD 104 million for the following in 2008:

- Program for the Development of the Infrastructure of *Caxias do Sul* Program to Support Municipal Governments (PRAM).
- Roadwork Program in the Municipality of Manaus-Program to Support Municipal Governments (PRAM).

Other contributions to the sustainable development of Brazil

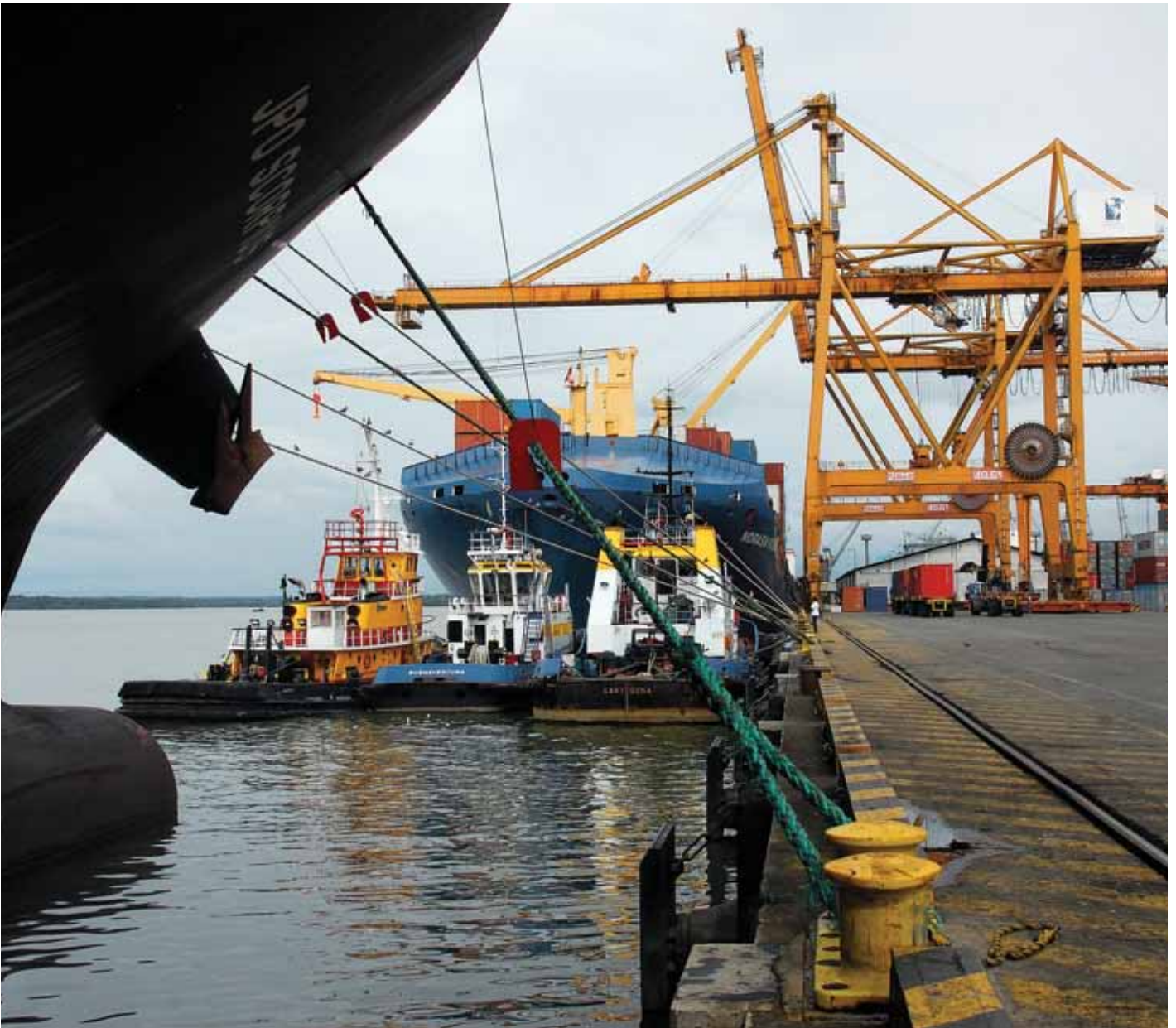
During 2008, CAF granted USD 242,200 to Brazil in cooperation funds. Resources were channeled mainly to the SME and microfinancing sector to promote and finance the VII Forum on Microfinance Regulation and Supervision, coordinated by the Central Bank of Brazil; the Iberoamerican Forum on Credit Guarantees, conducted in Salvador de Bahia; and the Second Annual Seminar organized by the Brazilian Association of Financial Institutions held in Rio de Janeiro.



Signature of the subscription of an A/B loan to finance a portion of *Centrais Eléctricas Brasileiras, S.A.* (ELECTROBRÁS) investment agreement. Rio de Janeiro, Brazil, August 12.

Approvals to Brazil. 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
<i>Centrais Eletricas Brasileiras, S.A. (ELECTROBRÁS)</i>	Long-term investment loan	Finance the Brazilian electric sector through ELECTROBRÁS investment plans. The objective is to increase the installed capacity for the generation, transmission, and distribution of electric energy.	600	12
State of Paraíba-Federative Republic of Brazil	Nuevos Caminos Road Paving and Rehabilitation Program	Rehabilitate and pave roads to interconnect marginal rural areas with areas in better conditions, promoting access to public goods and services. Thus, CAF contributes to the comprehensive strategy against poverty and to the reduction of regional asymmetries.	100	18
Unibanco, Banco Itaú BBA, Banco do Brasil, Bradesco, Banco Santander Banespa, Banco Safra, Banco Votorantim, Banco Industrial y Comercial, S.A. (BIC)	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital for the development of the productive sector.	1,095	Various
Microfin Fund	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital for the development of microenterprises.	3	Various
Various clients	Other operations with cooperation resources	Various	0.2	
Total			1,798	



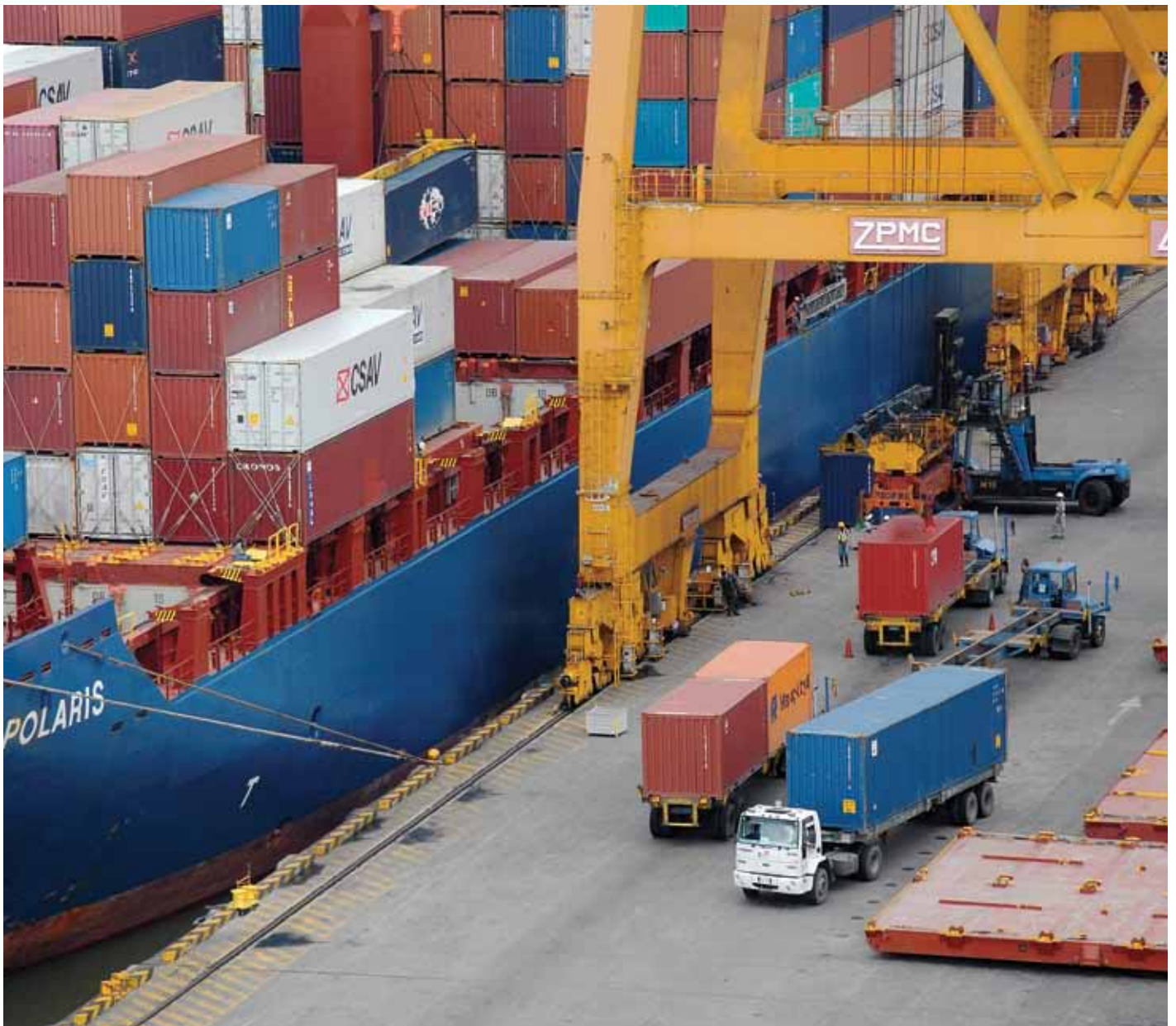
Colombia

in USD million

	2008	2004-2008
Approvals	1,483	5,855
Sovereign risk	700	2,968
Non sovereign risk	783	1,887
Disbursements	892	3,734
Sovereign risk	59	1,229
Non sovereign risk	833	2,505

in USD million

	2008
Portfolio	1,707
Sovereign risk	1,003
Non sovereign risk	704



The Port of Buenaventura, the largest in the Colombian Pacific coast, is one of the five ports where the First Class Ports Program was initiated. CAF's interest in the area involves not only providing support to the administration of the maritime port, but also to social development projects.

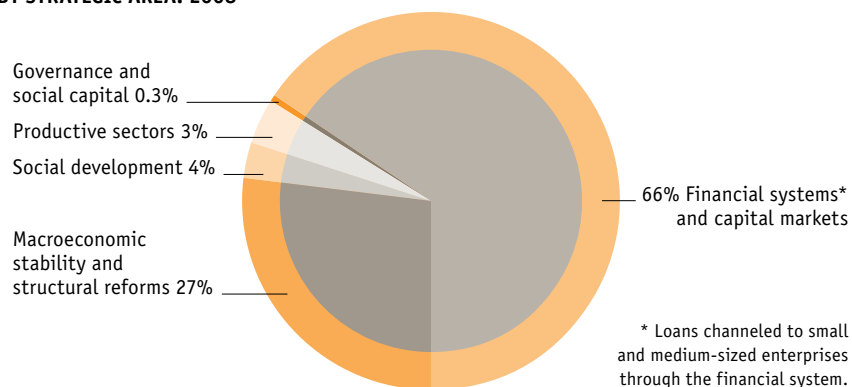
During 2008, CAF allocated USD 1,028 million to Colombia to attend the *financial and productive sectors* in financing projects related with private investment initiatives, mainly in the areas of energy and communications, and foreign trade and working capital operations. Of this amount, USD 985 million were channeled through the financial system to provide resources especially to the SME. The object of these initiatives is to promote the strengthening of the entrepreneurial base to face the challenges of trade integration with the rest of the world, one of the country's priorities.

In addition, the Institution approved USD 40 million for the infrastructure area through the private sector, to finance the investment program of *Transportadora de Gas del Interior* (TGI).

CAF also allocated 3 percent of the approvals to the *social development* area, specifically to the Financing Program for Development Projects through the Antioquia Development Institute (IDEA). In addition, the Institution allocated USD 3 million to finance microfinancing institutions.

In the area of *macroeconomic stability and structural reforms*, CAF approved a non-committed contingent credit line for USD 400 million to support the efforts of the National Government in the implementation of the public debt management strategy. Thus, it ensures resources when the conditions of capital markets do not satisfy the financing objectives of the Republic.

APPROVALS BY STRATEGIC AREA. 2008



Approvals to Colombia. 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Republic of de Colombia-Ministry of Finance and Public Credit	Non-committed contingent credit line.	Support the National Government's efforts in the execution of a public debt management strategy, ensuring contingent resources in the event that market conditions are not consistent with the objectives of the Republic.	400	10
Institute for the Development of Antioquia (IDEA)	Financing program for social development projects.	Finance social development projects of territorial entities and public services enterprises of the Antioquia department.	50	12
Transportadora de Gas del Interior, S.A. (TGI)	Risk capital investment in common shares.	Support the execution of the company's growth plan.	40	5
BANCOLDEX; Bancolombia, S.A.-BIC; Banco de Bogotá; Banco de Occidente; Bancolombia-Panamá; Banco Davivienda, S.A.; FINDETER; BBVA Colombia; Banco Santander; Banco Colpatria, S.A.	Credit lines, subordinate loans, guarantees.	Finance investment projects, letters of credit, and working capital for the development of the productive sector.	985	Various
Colombia Opportunity Fund (FIDE)	Credit lines, subordinate loans, capital investments, guarantees.	Finance working capital, and capital investments acquisitions for the development of the microfinance sector.	3	Various
Various beneficiaries	Other operations with cooperation resources	Various	5	
Total			1,483	

**Other contributions
to the sustainable
development of Colombia**

During 2008, CAF approved USD 5 million to Colombia in cooperation funds. Resources were channeled directly to the beneficiaries or through the various special programs developed by the Institution, described below.

Infrastructure

- Organized the Road Maintenance Workshop in Bogota, to present the management models of various Latin American countries.
- Supported and organized the dialogue 'Innovation in Infrastructure. Highways with Fiber', within the framework of the Global Colombia Fair. The objective of the event was to share lessons learned and contribute to the development of telecommunications, transportation, and electricity infrastructure.
- Supported INVIAS with specialized assistance on the technical aspects that must be considered in the competitive bidding, contracting, and supervision processes for the implementation of the works related to Túnel de la Línea.
- Provided technical and financial assistance to structure the Valle de Aburra-Golfo de Uraba Road Corridor (New Independence Route, Colombia) and the definition of the best model to attract private capital to the development of the project.
- Conducted analysis and planning for the infrastructure sector to develop projects with public-private financing.

Social development

- Supported the X National Congress and First International Congress of Home Public Services organized by ANDESCO in Cartagena. Supported the financing and dissemination of a study on the incidence of potable water and sanitation, garbage collection, energy, gas, and telecommunication public services on the competitiveness of the Colombian productive apparatus, and its comparison with selected countries in the region.
- Provided financial support and participated in the Forum Bogotá *Cómo Vamos* to improve policy actions in areas of urban development and habitat in the city.
- Supported the implementation of a key program to promote growth of the supply of Technical and Technological Education in Colombia.
- Provided technical and financial support for the implementation of the Water and Sanitation Departmental Plans in the departments of Cesar and Magdalena. In addition to financing the investment plans, CAF contributed to capacity building for regional and municipal management, aimed at guaranteeing the quality and sustainability of investments.
- Supported the forum 'Evolution of financial services for SMEs, in coordination with ASOBANCARIA.

Competitiveness

Competitiveness Program

- Supported the third edition of the Great SME Survey in Colombia.
- Supported the Ventures contest, known as the most important business plan competition in the country.
- Signed an agreement to undertake the second phase of the MERLIN project.
- Signed an agreement with the Chamber of Commerce of Bucaramanga for the development of a sustainable competitive strategy for the poultry industry in the Department of Santander.
- Signed an agreement with the Ministry of Mines and Energy to plan the strategies that enable the legalization and increase the competitiveness of Colombian mining SMEs.

Corporate Governance Program

- Signed agreements with *Aguas del Magdalena* and *Aguas del Cesar* to support the implementation of a corporate governance code and an agreement with the Stock Exchange to sensitize and support a group of 20 enterprises.

Governance

Governance and Political Management Program

- Signed agreements with the following universities: *Autónoma de Bucaramanga*, *Francisco de Paula Santander* (Ocaña Section), and *del Rosario* (Bogota, Barranquilla and Cartagena) to continue the implementation of the program.

Leadership for Change Program

- Graduation of the fourth class of the *Liderazgo Transformador Colombia* Program, conducted in alliance with ESAP.

Tools for Governance and Consensus Building Program

- Implemented the Persuasive Negotiations symposium with the participation of 1,150 individuals from the Governance and Political Management and Leadership for Change programs.

Regional Program for Updating and Improving Local Management

- Provided assistance to the municipalities of Floridablanca and Barrancabermeja on the subject of property registry.

Social responsibility

Social Action for Music Program

- Provided instrumental and choral education to 6,500 children and youths through the itinerant conservatories, and continued the luthiers training program together with the *Empresa Cultural* project.

Local opportunities

- Supported income generation and strengthening of the productive capacity of the communities of El Retiro neighborhood in Cali, together with *Fundación Carvajal*.

- Concluded the Vallenpaz project training in skills in Cauca.

- Continued work with AECID, the municipal and provincial governments in the Workshop Schools in Bogota, Cartagena, Mompo, and Popayan.

- Conducted basic skills training in Buenaventura with *Fundación Servicio Juvenil* and the Swiss and Belgian Cooperation.

Sports training

- Continued the project implemented by *Federación de Cajas de Compensación Familiar*.

Environment

BioCAF Program

- Provided follow-up technical assistance to the consolidation of two regional nodes of the National Biocommerce Observatory.

- Provided technical assistance for the creation of a fund to preserve the water system of Cartagena by means of a model of environmental services.

- Implemented a project to improve the quality of life of indigenous and farming families in the desert eco-region of Tatacoa, together with *Institución Autónoma Regional del Alto Magdalena*.

- Implemented a project to adopt productive strategies that contribute to the welfare of the local communities of Laguna de Fuquene and promoted the preservation of its ecosystem, together with *Fundación Humedales*.

PLAC^{te}

- Conducted a feasibility, pre-sizing, and technical requirements study for the MIO-Cable air transport system of the SITM-MIO. The project is key to the initiation of the Integrated Mass Transport System of the city of Cali (SITM-MIO). At present, six PLAC^{te} agreements have been signed in Colombia, showing the impact and influence of this important CAF program.



Educational Program *Bogotá Una Gran Escuela*.



CAF supports the Education Program *Bogotá Una Gran Escuela*, which is a part of a medium-term objective of the District Plan to improve the level of education and its coverage.



Ecuador

in USD million

	2008	2004-2008
Approvals	604	3,870
<i>Sovereign risk</i>	345	2,740
<i>Non sovereign risk</i>	259	1,130
Disbursements	443	3,001
<i>Sovereign risk</i>	208	2,073
<i>Non sovereign risk</i>	235	928

in USD million

	2008
Portfolio	2,018
<i>Sovereign risk</i>	1,734
<i>Non sovereign risk</i>	284



The Management for Competitiveness Model in the automotive sector is focused on strengthening the leader enterprise-supplier scheme, so that in the future, it may enter the international panel of the industry's head offices more competitively in terms of quality, technology, service, and price. The initiative is part of the Competitiveness Program developed by CAF.

During 2008, CAF allocated USD 145 million to Ecuador to develop projects in the *infrastructure* area. Of this amount, the Institution provided USD 110 million to the Municipality of the Metropolitan District of Quito for the construction of the Gualo-Pueumbo Highway. The highway –a key component of the Quito Northeastern Road Network– will enable the connection to the new International Airport.

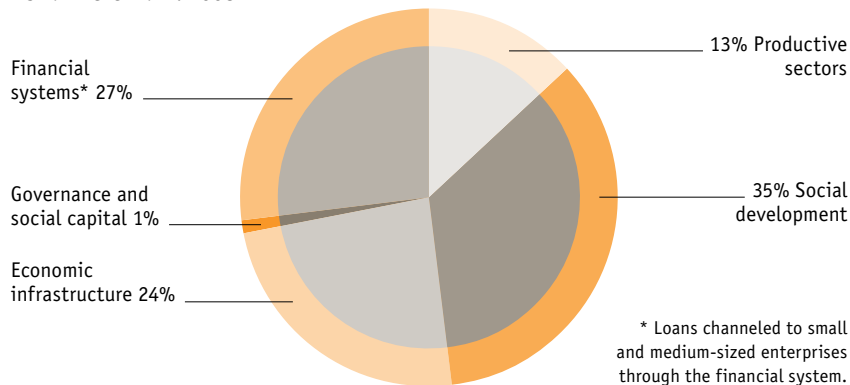
In addition, the Institution approved USD 35 million to the Port Authority of Manta to finance the initial works of the Ecuadorean Mega International Cargo Transfer Port. It is expected that the modernization of the port will stimulate international trade in the country, promote competitiveness and favour the region's integration.

The Institution also allocated USD 208 million to the *social development* area. Of this amount, it destined USD 200 million to the Republic of Ecuador as a contingent financing mechanism for a comprehensive treatment of emergencies arising from natural disasters. Resources would be available mainly for the rehabilitation of infrastructure. Likewise, it allocated USD 8 million to support the development of the country's micro financing sector through resources granted to *Banco Procredit*.

CAF also approved USD 81 million to *productive sectors*, aimed at financing investment projects of a number of entrepreneurial groups and expand their productive capacity and working capital.

In addition, USD 165 million were allocated to the *financial sectors* to finance foreign trade operations, working capital, and capital investments.

APPROVALS BY STRATEGIC AREA. 2008



Approvals to Ecuador, 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Republic of Ecuador- Ministry of Finance	Contingent financing to comprehensively attend natural emergencies	Facilitate timely financing to the Republic in cases of emergencies due to natural phenomena. The financing will be mainly destined to rehabilitate damaged infrastructure.	200	18
Municipality of the Metropolitan District of Quito	Gualo-Puembo Highway	Build the Gualo-Puembo Highway, which will provide an interconnecting road to the New International Airport in Quito. The highway is a main component of Quito's road network and the Northeastern Highway Network	110	18
Port Authority of Manta and Special Inter-Institutional Commission of the Ecuadorean International Cargo Transfer Port project in the port of Manta (CEIPPTICEM)	Long-term loan	Finance the initial works of the Ecuadorean Mega International Cargo Transfer Port.	35	12
OTECEL	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade and working capital operations.	25	Various
Procesadora Nacional de Alimentos, C.A. (PRO-NACA)	Credit line for short-term operation, and subordinate mid-term loan	Address working capital requirements.	25	7
Corporacion Favorita, C.A.	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital requirements.	15	Various
Papelera Nacional	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital requirements.	10	Various
Nirsa	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital requirements.	3	Various
Novopan	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital requirements.	3	Various
Produbanco; Banco del Pichincha; Banco de Guayaquil; Banco Boliviano; Banco Internacional; Banco del Pacífico.	Trade and working capital financing	Finance foreign trade operations, working capital, and capital investments.	165	Various
Banco Procredit	Working capital and investment projects financing for the development of SMEs	Finance working capital, and capital investments for the development of SMEs.	8	Various
Various beneficiaries	Other operations with cooperation resources	Various	5	
Total			604	

**Other contributions
to sustainable
development in Ecuador**

During 2008, CAF provided USD 5 million to Ecuador in cooperation funds. Resources were directly channeled to beneficiaries or through the various special programs developed by the Institution, as indicated below.

Infrastructure

Mass Transport Technology Fuel Reduction

- Examined the energy consumption matrix to support the Ministry of Electricity of Ecuador in analyzing the feasibility of reducing oil consumption by means of changing to technologies that use renewable energies for transport in the cities of Quito and Guayaquil and between them.

Social development

- Supported and supervised the preparation of the Zoning and Sustainable Development Plan for the inner city in Loja.
- Supported the Municipality of Portoviejo in the development of a program to strengthen sectoral management of the company operating the water and sewage services in the city-EMAPAP.
- Supported the VII Ecuadorean Microfinance Forum, organized by the Rural Financing Network, and the workshop on Alternative Finances with a Gender Approach organized by Espoir and INAFILA.
- Allocated resources to design the Master Plan for potable water, sanitary sewage, and rain water drainage systems for the city of Riobamba, to correct existing deficiencies, and develop a long-term sustainable investment plan that will improve the population's quality of life.

Competitiveness

Competitiveness Program

- Signed two agreements with the Mayoralty of the Metropolitan District of Quito. The first one to find alternatives for diversifying production and increase productivity in the Quito-Pichincha region; and the second one to strengthen entrepreneurial capacity and improve competitiveness of the software sector.
- Reached an agreement with the Small Industry Chamber of the Azuay region to strengthen the textile sector.
- Supported the horticultural and fruit growing sector in four Ecuadorean provinces.
- Initiated the Productive Transformation Project in the Floriculture Sector.

Corporate Governance Program

- Signed an agreement with the Quito Stock Exchange to create an Academic Unit.
- Agreed on the list of State-Owned Companies (SOEs) interested in becoming a part of the Program on Implementation of Best Practices in Corporate Governance in SOEs of the Andean region.

Governance

Governance and Political Management Program

- Signed an agreement with the *Pontificia Universidad Católica* of Guayaquil and the *Pontificia Universidad Católica* of Ecuador to disseminate knowledge that will lead to the development of management with a comprehensive vision. Training was provided to 186 local government leaders.

Leadership for Change Program

- Provided training to leaders from Cuenca, Guayaquil, Loja, and Riobamba. The program was implemented for the second consecutive year in alliance with *Escuela Superior Politécnica del Litoral* (ESPOL), with the participation of 537 natural leaders from 53 municipalities.

Tools for Governance and Consensus Building Program

- Conducted four workshops in the areas of negotiation, strategic communication, leadership, and persuasion with a multidisciplinary group of 40 leaders.

Regional Program for Updating and Improving Local Management

- Implementation of the Program in the municipalities of Machala and Porto Viejo. The initiative will strengthen abilities in planning and financial management which will increase the social returns of projects to citizens.

Social responsibility

Social Action for Music Program

- Strengthened the program in the choral and orchestral area, and its alliance with *Fe y Alegría*.

Local opportunities

- Concluded three projects co-financed by FUNDACION REPSOL YPF and continued the Randimpack project in five provinces of the Central Sierra.

- Implemented the project on micro entrepreneurial management, community organization, and access to credit for poor families in Guayaquil, in alliance with *Institución de Viviendas del Hogar de Cristo*.

- Supported the wives of the Galapagos' fishermen.

Basic skills training and heritage rescue

- Initiated work in three workshop schools in alliance with AECID and other institutions.

- Initiated a project on skills training for 380 youths, in alliance with *Centro del Muchacho Trabajador*.

Sports training

- Concluded the alliance with *Corporación Fútbol y Mentalidad Ganadora*.

Environment

BioCAF Program

- Provided technical support to *Niños del presente sembrando el aire de futuro* in alliance with the Quito Municipal Public Works Company and *Fundación Botánica de los Andes*.

- Provided technical assistance to identify the current state, design, and dissemination of a protected marine area sub-system of the SNAP of *Fundación Natura*.

- Implemented an eco-route in the Sumaco Biosphere Reserve in coordination with the National Program for Sustainable Biocommerce.

- Provided technical assistance to make public policies "greener" in alliance with *Fundación para el Avance de las Reformas y Oportunidades* and *Grupo Faro*.

- Provided technical assistance to create an action plan for the preservation of one of the last populations of the Harlequin frog (*atelopus sp*) in Southeastern Ecuador.

PLAC⁺e

- Provided institutional strengthening and support for the assistance of personalities participating in the III Latin American Carbon Forum.



Social Responsibility Program. Musical training.



CAF strengthens its Social Action for Music Program in its choral and orchestral expressions.



Panama

in USD million

	2008	2004-2008
Approvals	635	768
<i>Sovereign risk</i>	234	367
<i>Non sovereign risk</i>	401	401
Disbursements	16	82
<i>Sovereign risk</i>	16	81
<i>Non sovereign risk</i>	—	1

in USD million

	2008
Portfolio	72
<i>Sovereign risk</i>	70
<i>Non sovereign risk</i>	2



CAF approved a loan for USD 400 million to the Panama Canal Authority to partially finance the comprehensive program to expand the Canal's capacity. The operation constitutes an important commitment to Panama's development, as well as to regional integration, benefiting key projects in the public and private sectors.

During 2008, CAF approved USD 635 million to Panama, the highest amount provided by the Institution to the country. Of this amount, USD 400 million were directed at partially financing the expansion of the Panama Canal, a key project for the country's development which will benefit the whole region.

In addition, the Institution approved USD 210 million to *Banco Nacional de Panama* to finance foreign trade operations and USD 18 million for the execution of a program to recover Hydrographic Basins which will be implemented by the National Authority of the Environment (ANAM).

The Institution also provided USD 6 million for the construction of the Binational Bridge over the Sixaola River, which will strengthen the ties between Costa Rica and Panama, and the commercial and tourist flow between both countries.

Other contributions to sustainable development in Panama

During 2008, CAF provided USD 808,500 to Panama in cooperation funds. Resources were directly channeled to beneficiaries or through various special programs developed by the Institution, mainly for the infrastructure sector, to support the evaluation, structuring, negotiation, and formalization of the financing for the expansion of the Panama Canal project; and to conduct a study on the technical, economic, social, and environmental feasibility of the construction of a water tunnel for the aerodynamic study of diverse fluids.

In addition, CAF provided resources to the MSME sector by approving a credit line to MICROSERFIN, a micro financing institution established in the country.



Panama's full membership in CAF was formalized with the presence of President Martín Torrijos, the Vice-president of the Republic, high ranking government officials, members of the diplomatic corps, and representatives of the private sector. Panama City, July 22.

Approvals to Panama. 2008 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Panama Canal Authority (ACP)	Panama Channel Expansion Program	Finance the Panama Channel expansion project, to increase the Canal's competitiveness in the long term.	400	20
Banco Nacional de Panamá (BANCONAL)	Credit line guaranteed by the Republic of Panama	Finance foreign trade operations through the confirmation of commercial letters of credit to import goods.	210	1
Republic of Panama-National Authority for the Environment (ANAM)	Investment Program for the restoration of priority hydrographic basins	Support the restoration of the hydrographic basins and the development of the generation potential of renewable energy in the country.	18	15
Republic of Panama-Ministry of Public Works (MOP)	Binational bridge over the Sixaola River	Finance the construction project of the binational bridge over the Sixaola River, that will strengthen integration bonds between Costa Rica and Panama, as well as the commercial and touristic flows between both countries.	6	18
Various beneficiaries	Other operations with cooperation resources	Various	1	
Total			635	



Paraguay

<i>in USD million</i>	2008	2004-2008
Approvals	6	31
<i>Sovereign risk</i>	—	20
<i>Non sovereign risk</i>	6	11
Disbursements	8	36
<i>Sovereign risk</i>	4	28
<i>Non sovereign risk</i>	4	8
<i>in USD million</i>	2008	
Portfolio	37	
<i>Sovereign risk</i>	32	
<i>Non sovereign risk</i>	5	

During 2008, CAF approved USD 5 million to *Banco Regional* to finance investment projects for the development of small and micro enterprises. In addition, through cooperation funds, the Institution provided USD 1 million to support projects that benefit and improve the living conditions of the population.

The Institution also approved a capital investment in *Visión Banco* SAECA, a financial institution, for USD 500,000 as well as a rotating credit line for up to USD 1 million. The approvals are a part of CAF's commitment to the development of micro enterprises in Latin America.

In the area of SME and microfinance, the Institution approved credit lines and capital investments for *Visión Banco* and *Banco Regional*, financial entities specialized in attending the needs of microenterprises. In addition, CAF supported the XI Inter-American Microenterprise Forum.

The Institution also allocated USD 500,000 in non-reimbursable funds to finance the Program of Basic Care in Indigenous Settlements, to provide assistance in emergency situations faced by indigenous communities.



In a solemn act in Brazil, during the Latin America and Caribbean Summit, and in the presence of Fernando Lugo, President of Paraguay as a guest of honor, CAF's Executive President, Enrique García, and Dionisio Borda, Paraguay's Minister of Finance, signed the agreement whereby Paraguay became a full member of the Institution.



Peru

in USD million

	2008	2004-2008
Approvals	1,458	4,600
<i>Sovereign risk</i>	450	2,025
<i>Non sovereign risk</i>	1,008	2,575
Disbursements	1,531	4,464
<i>Sovereign risk</i>	334	1,209
<i>Non sovereign risk</i>	1,197	3,255

in USD million

	2008
Portfolio	1,774
<i>Sovereign risk</i>	1,152
<i>Non sovereign risk</i>	622



The Southern Interoceanic Road Corridor is considered the largest asphalt road project in Peru. With a total length of approximately 2,600 Km of roads between Peru and Brazil, it crosses the departments of Madre de Dios, Cusco, Apurimac, Ayacucho, Puno, Arequipa, Moquegua, and Tacna.

During 2008, CAF provided USD 136 million to Peru for the development of *economic infrastructure* projects, mainly to the energy sector. Resources are aimed at the expansion of the pipeline system for gases and liquids, vital to reduce energy imports, improve the country's energy matrix, and lower energy prices for the population.

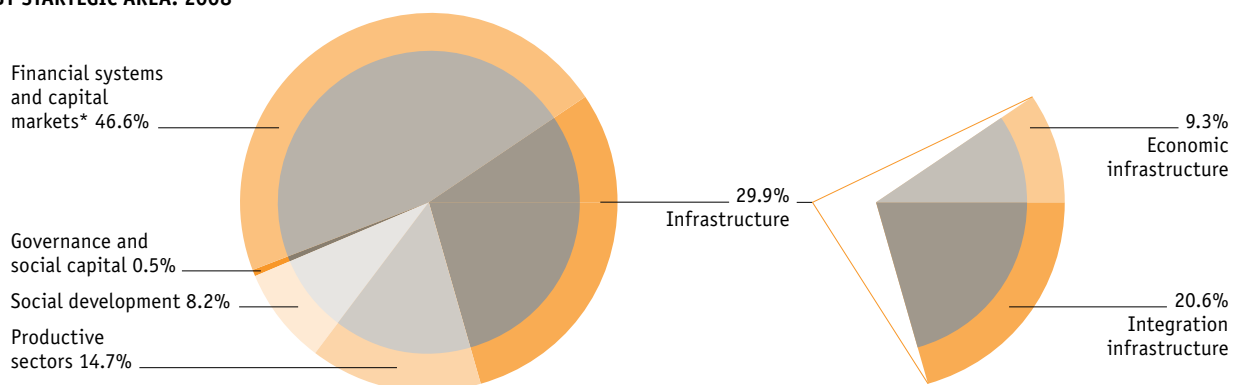
In addition, the Institution approved an operation to support *integration infrastructure* for USD 300 million to finance additional works of the Southern Interoceanic Road Corridor (CVIS). The initiative is part of the Special Infrastructure Project for National Transportation (PROVIAS), a proposal to integrate and develop the Southern Macro Region in Peru.

The Institution also allocated 8.2 percent of the approvals to Peru to the *social development* area. Thus, USD 84 million were provided to the Social Investment and Infrastructure against Poverty Program, aimed at supporting the reduction of extreme poverty through social investment projects in the areas of agriculture, education, sanitation, and health. The Program seeks to improve the living conditions of the most vulnerable populations and promote economic and social development opportunities within the framework of the decentralization process that the country advances as a priority policy.

CAF also provided USD 680 million to *financial systems* to support foreign trade and working capital operations, with special attention to the SME segment.

In addition, USD 215 million were allocated to *productive sectors* to support the expansion of a more competitive entrepreneurial base to face the challenges of trade integration with the rest of the world. Resources were allocated to finance private investment initiatives, mainly in the area of energy and marketing of basic products.

APPROVALS BY STRATEGIC AREA. 2008



* Loans channeled to small and medium-sized enterprises through the financial system.

Approvals to Peru. 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Republic of Peru-Ministry of Economy and Finance (MEF), through the Public Debt National Directorate	II Social and Infrastructure Investment Program to fight poverty	Contribute to the reduction of poverty and extreme poverty in Peru, particularly in rural areas, by means of social and infrastructure investments that provide access to public services, thus bridging existing gaps.	150	18
Republic of Peru-Ministry of Transportation and Comunicaciones (MTC), through the Special National Transportation Infrastructure Project-PROVIAS Nacional	Additional works of the Southern Inter-Oceanic Road Corridor	Finance the Southern Inter-Oceanic Road Corridor, a road project for the integration and development of the southern macro region of Peru. This integration road corridor will directly and indirectly benefit a population of close to six million Peruvians and almost a million Brazilians and Bolivians.	300	16
Transportadora de Gas del Perú, S.A.	Long-term loan	Finance the expansion of the pipeline system for the transportation of gases and liquids. The project will contribute to reducing energy imports, and improving the country's energy matrix.	70	10
La Pampilla Refinery	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	50	Various
Corporación Aceros Arequipa	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	50	Various
Telefónica del Perú	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	30	Various
Graña & Montero (GyM) Perú	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	30	Various
Alicorp, S.A.	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	30	Various
Quimpac	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	10	Various
Enfoca Discovery 1 L.P.	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	10	Various
San Miguel Industrial	Trade, working capital, and investment projects financing	Finance investment projects, foreign trade operations, and working capital.	5	Various
Banco de Crédito de Perú, BBVA Banco Continental; COFIDE; ScotiaBank; Banco de la Nación; Banco Internacional de Perú-Interbank; BIF Banco Interamericano de Finanzas; America Leasing.	Trade, working capital, and investment projects financing	Finance investment projects, and foreign trade and working capital operations for the development of the productive sector.	680	Various
Microempresa, S.A.-Mibanco; Caja Municipal de Ahorro y Crédito of Arequipa; Caja Municipal de Ahorro y Crédito of Trujillo; Edpyme Edificar; Caja Municipal de Ahorro y Crédito of Tacna; Edpyme Confianza; FOGAPI.	Trade, working capital, and investment projects financing for small and medium-sized enterprises	Finance working capital operations for the development of small and medium-sized enterprises, as well as guarantees for SMEs.	36	Various
Various beneficiaries	Other operations with cooperation resources	Various	7	
Total			1,458	

**Other contributions
to sustainable
development in Peru**

During 2008, CAF provided USD 7 million to Peru in cooperation funds. Resources were directly channelled to beneficiaries or through the various special programs developed by the Institution, described below.

Infrastructure

- Conducted an Impact Study in the Lima and El Callao Metropolitan Network to support the Ministry of Transportation and Telecommunications in the analysis of the movement of cargo arising from the port and airport of El Callao, as well as to determine future physical infrastructure needs for an efficient cargo circulation in the area.
- Partially financed technical assistance and studies needed for the implementation of the Aeolic Energy Generation Project in the city of Piura and the port of Paita in North eastern Peru.
- Supported the Municipality of Lima in hiring a specialized company to conduct a study of demand in the Av. J. Prado-La Marina-Fau-cett road corridor.
- Partially financed the studies and pre-operational expenditures for the implementation of the Integrated and Sustainable Public Transportation System in Arequipa.

Social development

- Supported the Monitoring and Quality Control Program for potable water and sanitation investments in the country.
- Supported the event 'PERUSAN 2008 Alternative Solutions for Sanitation'. The initiative was led by the Peruvian Ministries of Housing, Construction, and Sanitation; Health; and Environment. It gathered the most relevant actors of the sanitation sector in the region, and contributed to the construction of a new vision for the sector, with high impact on the life and health of the most vulnerable populations.
- Financed a consultative meeting with international experts, and a feasibility study for a research program on prevention and treatment of the Carrion Disease or Human Bartonellosis and the development of a vaccine against the disease.
- Allocated resources to improve educational quality by strengthening the *Escuela de Política y Gestión Educativa* in the Moquegua region.
- Supported the Venture Forum Peru 2008, aimed at risk capital and the development of entrepreneurial culture.

Competitiveness

Competitiveness Program

- Created the Technical Norms for Saurel, Mackerel, and Trout. The initiative was developed in alliance with PROMPERU.
- Created the Development Plan for a National System of Quality in Peru, together with ADEX.
- Strengthened the Trout Production Chain for export in Lake Titicaca.
- Developed the Productive and Management Capacities of the alpaca producers of Quispicanchis-Cusco.
- Implemented a fair trade system for Peruvian manufactured exports in alliance with PROMPERU.

Corporate Governance Program

- Supported the 2008 Good Corporate Governance Contest which recognizes the leading enterprises in the area.
- Diagnosed CAVALI's compliance with Corporate Governance practices.

Governance

Governance and Political Management Program

- Signed agreements with the *Pontificia Universidad Católica del Perú*. Two hundred and forty students registered in the cities of Arequipa, Cusco, Huancayo, Tarapoto, Trujillo, and four groups in Lima. Trained mayors, council members, presidents of neighbourhood committees, departmental council members, municipal technical teams, politicians, and leaders from organizations that work in municipalities on special subjects of interest.

Leadership for Change Program

- Trained 572 leaders on subjects related to civic-democratic and citizenship values. For the third consecutive year, Lima served as headquarters for the closing ceremony. On this occasion, representatives from social, cultural, indigenous, farmer, union, and micro and small entrepreneurial organizations attended, in the cities of Ancash, Arequipa, Ayacucho, Cajamarca, Callao, Cusco, Junin, La Libertad, Lima, Puno, Tumbes, and Ucayali.

Regional Program for Updating and Improving Local Management

- Conducted a diagnosis for the implementation of the Program's pilot plan in the municipalities of Lince and Breña.

Social responsibility

Social Action for Music Program

- Strengthened the program in the orchestral and choral areas in Lima, Trujillo, Piura, Huacho, and Huaura.
- Created the National Network of Symphonic Orchestras and Children's and Youth's Choirs in Public Educational Institutions.

Local opportunities

- Concluded the implementation of a set of initiatives aimed at strengthening the economy of 2,500 rural women in San Martín, Ucayali, and Lima.
- Continued working on the development of local cooperation networks in eight districts of the province of Huaura and one in Junin.

Basic skills training and heritage rescue

- Initiated the second stage of the program to train youths in the workshops schools of Arequipa, Colca, Cusco, and Lma, in alliance with AECID and other institutions.

Sports training

- Initiated the *Enseñar a Jugar* project to contribute to a comprehensive development of 50,000 children.

Environment

BioCAF Program

- Created a management and environmental management master plan for the *Pantanos de Villa* together with the Municipal Authority of Pantanos de Villa (PROHVILLA).
- Consolidated the muffling zone for the Tambopata National Reserve, in the Madre de Dios region, in alliance with the Peruvian Foundation for the Preservation of Nature (PRONATURALEZA).
- Created the potato map together with the Ministry of the Environment of Peru.

Forestry Program and Integrated Management of Basins

- Created a sustainable and competitive forestry development program together with the Ministry of Economy and Finance.
- Promoted an integrated management program for the water resources of the Santa River basin together with the National Institute of Natural Resources (INRENA).

PLAC⁺e

- Provided technical assistance to support the International Forum on Climate Change and Eco-efficient Enterprises together with the Ministry of the Environment and *Universidad Científica del Sur*.



Social Responsibility Program. Sports training.



CAF's Social Action for Sports Program contributes to a comprehensive development of children and youths in vulnerable communities.



Uruguay

in USD million

	2008	2004-2008
Approvals	601	806
Sovereign risk	600	735
Non sovereign risk	1	71
Disbursements	170	251
Sovereign risk	170	251
Non sovereign risk	0	0

in USD million

	2008
Portfolio	232
Sovereign risk	232
Non sovereign risk	0



To increase the availability of energy in the Uruguayan electric system, CAF granted a loan to the National Administration of Power Plants and Electrical Transmissions (UTE). Resources will partially finance the implementation of the Program to Strengthen the National Electric System during the 2008-2011 period.

During 2008, CAF approved operations for USD 200 million in Uruguay for the development of projects in the *economic infrastructure* area, to the National Administration of Power Plants and Electrical Transmissions (UTE). Resources were aimed at partially financing *Central Térmica de Generación de Energía Eléctrica Punta de Tigre* (USD 150 million), and the remaining amount (USD 50 million) were granted for a credit line for working capital. This is the third stage of the project, which consists of the incorporation of two additional generating units of identical characteristics to those of phases I and II. The addition will require the expansion of the substation, and an increase in the capacity of auxiliary systems, that is, the water treatment plant and the liquid fuels centrifugate plant.

CAF supports Uruguay since 2002, when it partially financed investment on the roads for integration program. At present, the Institution has approved three loans for the program, the most recent of which was approved in 2007. The same year, CAF approved USD 70 million to the Institution for National Development (CND), guaranteed by the Republic, to partially finance the Road for Integration Program which facilitates connections and trade with all MERCOSUR countries. It is worth noting that, for this project, the Institution authorized a subsidy through the Compensatory Financing Fund (FFC), a mechanism to compensate for interest rates, created by CAF to favour initiatives with high impact on the countries' development.

In the areas of *macroeconomic stability* and *structural reforms*, CAF approved a contingent non-committed line of credit for USD 400 million to support the efforts of the Ministry of Economy and Finance in the implementation of the public debt management strategy. Through this mechanism, Uruguay has access to resources when capital market conditions do not satisfy the financing objectives of the Republic in light of the deterioration of the international financing situation.

CAF also provided USD 500,000 to Uruguay in cooperation funds, channelled to develop initiatives in the following areas.

Infrastructure

Conducted a study on models to attract private capital for the development of infrastructure projects by implementing public-private associations.

SME and microfinance

Approved a capital investment of up to USD 200,000 to MICROFIN, a microfinancing institution, to expand support for economic and social development by promoting Uruguayan microenterprises.

Approvals to Uruguay, 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Eastern Republic of Uruguay-Ministry of Economy and Finance	Non-committed contingent credit line	Support the government's efforts in the execution of its public debt management strategy by means of a preventive financing instrument that provides financial resources in the event that the country cannot access capital markets.	400	18
National Administration of Power Plants and Electrical Transmissions (UTE)	Long-term loan for the program to strengthen the National Electrical System	Increase the country's power generation capacity in response to increasing demand. The Program has been designed to minimize potential rationing within the medium and long-term range.	150	15
National Administration of Power Plants and Electrical Transmissions (UTE)	Non-committed revolving credit line	Finance working capital requirements during the execution of investments during the period 2008-2011.	50	1
Various beneficiaries	Other operations with cooperation resources	Various	0.5	
Total			601	



Venezuela

in USD million

	2008	2004-2008
Approvals	72	3,178
<i>Sovereign risk</i>	40	2,471
<i>Non sovereign risk</i>	32	707
Disbursements	260	1,749
<i>Sovereign risk</i>	259	1,713
<i>Non sovereign risk</i>	1	36

in USD million

	2008
Portfolio	1,535
<i>Sovereign risk</i>	1,535
<i>Non sovereign risk</i>	0



The Tocoma Hydroelectric Power Plant is the most recent of the energy generation projects in the Lower Caroní River. Its execution is part of a strategic plan to use the hydroelectric potential of the Caroní River, located in southern Venezuela, and includes the construction of four hydroelectric power plants.

At present, three power plants have been constructed. They provide 75% of the country's total energy consumption.

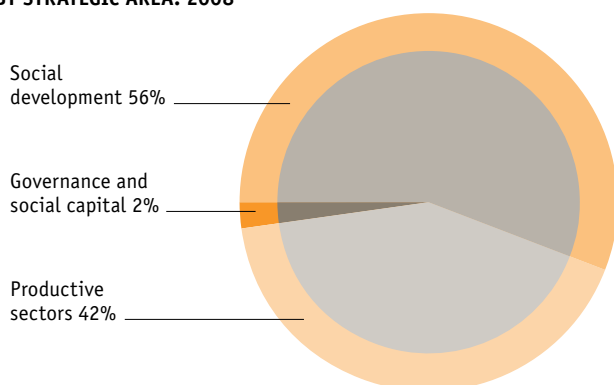
During 2008, CAF approved USD 40 million to Venezuela for the *social development* area, to implement the National Environmental Management and Conservation Project (PRONGECA). The main goals are to increase the quality of life of the population, and improve urban and rural environmental conditions in the areas of influence through regional laboratories to analyze environmental quality and optimize local environmental management through State Environmental Directorates.

The Yacambú-Quíbor System: Infrastructure, Basin Preservation, and Development of the Valley is another project supported by CAF in the social development area. The Institution's contribution exceeds USD 200 million of the approximately USD 600 million to be invested by the Venezuelan government. The loan is part of the global financing provided by the Institution, and is mainly aimed at promoting agricultural development in the state of Lara through the use of the waters of the Yacambú River.

In addition, CAF allocated 42 percent of the year's approvals to the *competitiveness and productive sectors*, and MSME areas, through a long-term loan operation to *Aceites y Solventes Venezolanos, S.A. (VASSA)* for USD 31 million. Resources will be directed at partially financing the company's investment plan.

The Institution also continued to finance important projects for the Venezuelan economy, such as the construction of the Tocoma I and Tocoma II hydroelectric power plants; the Potable Water and Sanitation Investment Program whose objective is to ensure the availability, quality, continuity, and sustainability of the potable water and sanitation services in different urban areas; and the Operational Investment Program of the Caracas Subway.

APPROVALS BY STRATEGIC AREA. 2008



Approvals to Venezuela. 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Bolivarian Republic of Venezuela-Ministry of Popular Power for the Environment	National Project of Environmental Management and Conservation (PRONGECA)	Increase the population's quality of life and improve urban and rural environmental conditions in the areas of influence. Specifically, it is expected that public health in urban areas will improve by reducing the exposure to contaminants and diseases contained in solid residuals; improve the local supervision tools through regional laboratories that analyze environmental quality; and promote the conservation of the biodiversity and reduce the degradation of the national resources by consolidating the wild life refuges and the national and recreational parks.	40	12
Aceites y Solventes Venezolanos VASSA, S.A.	Long-term corporate loan	Partially finance the company's investment plan.	31	10
Various beneficiaries	Other operations with cooperation resources	Various	1.5	
Total			72	

Other contributions
to sustainable
development in Venezuela

During 2008, CAF approved USD 1.5 million to Venezuela in cooperation funds. Resources were directly channeled to the beneficiaries or through the various special programs developed by the Institution, as indicated below.

Infrastructure

- Conducted a study of the Venezuelan aeronautical market which includes identification of user profiles, satisfied and unsatisfied transport needs, and user expectations.

Social development

- Supported the promotion and improvement of 'quality coffee' as a sustainable alternative in the micro-basins of Venezuela.
- Provided assistance to the technical team responsible for the activities of the VII National Agricultural Census which will help design public policies and plans.
- Supported a seminar on SME access to capital markets, organized by the *Comisión Nacional de Valores*, as well as competitiveness in business plans, organized by *Fundación Ideas*.

Competitiveness

Competitiveness Program

- Promoted the development of the candle export cluster by strengthening the capacities of a group of small- and medium-sized manufacturing enterprises, organizing and promoting an export syndicate in alliance with the Venezuelan Association of Candle Manufacturers (AVENFAVE).
- Supported Venezuelan Chamber of Alcoholic Goods Industry to place Venezuelan rum on an international level by promoting the trademark 'Rum of Venezuela' abroad. Also, contributed to a greater integration of the value chain between large, medium, and small actors.

Corporate Governance Program

- Signed an agreement with the Venezuelan Association of Executives (AVE) to implement a 'National Corporate Governance Program' to strengthen methodology, training, and technical expertise to create networks of experts in corporate governance, as well as to disseminate the benefits of good corporate governance and implement the principles in SMEs and family-owned businesses in Venezuela.

Governance

Governance and Political Management Program

- Renewed the agreement with *Universidad Católica Andrés Bello* (UCAB) for the sixth consecutive year.

Leadership for Change Program

- Graduated more than 600 individuals from different states in the Program's second graduating class. The Program is conducted in alliance with *Instituto Universitario de Gerencia y Tecnología* (IUGT).

Regional Program for Updating and Improving Local Management

- Implemented the program in the municipality of Lechería providing tools that will enable a more efficient organization.

Tools for Governance and Consensus Building Program

- Implementation of the second stage of the Persuasive Negotiations Symposium held at CAF headoffice. The stage aimed at improving the negotiating abilities of the participants in the Governance and Political Management and Leadership for Change Programs implemented by CAF at a regional level, as well as those of former participants in both programs, as part of the continuous update that leaders must observe. Three hundred individuals participated in the Symposium facilitated by Cambridge International Consulting (CIC).

Social Responsibility

Social Action for Music Program

- Strengthened the program in the orchestral and choral areas, together with the National System of Youth's and Children's Orchestras. In the choral area, the Program progressed in Barquisimeto, Caracas, Ciudad Bolívar, Maracay, Mérida, and Valera mainly through choral conducting and singing workshops.

Basic skills training and heritage rescue

- Continued training the youngsters of the La Guaira Workshop School, initially promoted by AECID and the Municipality of Vargas.
- Continued the Coro Workshop School project, training youths in six different skills.
- Completed the technical training (SUPERATEC) and labor insertion project, where 700 youths were trained, together with some parents and teachers.
- Continued the project *El laboratorio de los sueños*, in alliance with Fundación Santa Teresa, the municipality of Revenga, and other private actors in the state of Aragua, promoting the labor insertion of former delinquent youths through the practice of rugby, and labor insertion through the *Taller del Constructor Popular*.

Environment

BioCAF Program

- Conducted a project to evaluate the National System of National Parks and Natural Monuments in the Andes Mountains, with the support of Conservation International Venezuela.

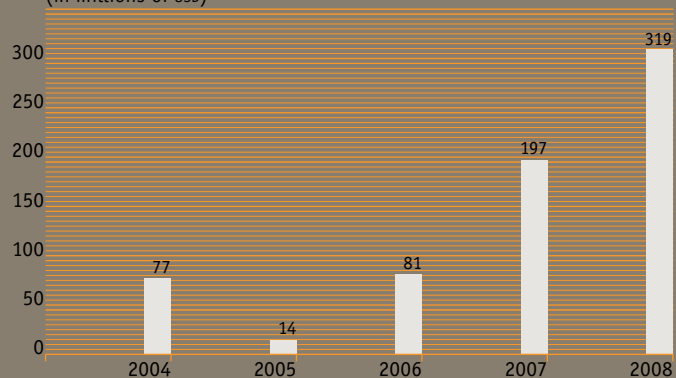


Coro Workshop School. Basic skills training.

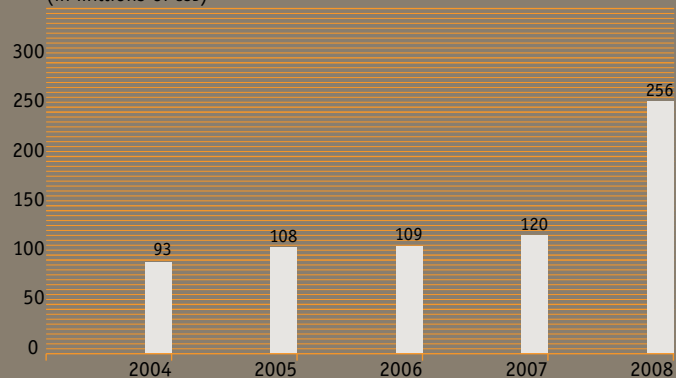


Through the Coro Workshop School, CAF and AECID contribute to the training and labor insertion of skilled labor.

APPROVALS. OTHER SHAREHOLDER COUNTRIES (2004-2008)
(in millions of USD)



PORTFOLIO. OTHER SHAREHOLDER COUNTRIES (2004-2008)
(in millions of USD)



Approvals to other shareholder countries during 2008 showed an increase of 63% as compared with the previous year.

In addition, the portfolio allocated to these countries grew significantly, enabling a net flow of resources of USD 132 million.

6

Other shareholder countries

During 2008, CAF approved operations to other shareholder countries for USD 319 million. Disbursements reached USD 282 million, and total portfolio reached USD 256 million.

The incorporation of Argentina, Brazil, and Uruguay as full members of the Institution in 2007, and of Panama and Paraguay in 2008, resulted in a lower concentration of operations of other shareholder countries. Nevertheless, approvals to these countries grew by 62 percent with respect to 2007. In addition, the portfolio grew significantly in relation to the previous year, resulting in a net flow of resources of USD 132 million.

CAF allocated resources mainly for the development of infrastructure projects in these countries, as well as to support the integration of the Mesoamerican region. In addition, it offered financial support to promote productivity and competitiveness, providing resources to both the private sector and financial systems. At the same time, the Institution granted non-reimbursable cooperation funds for approximately USD 1 million.

COSTA RICA

During 2008, CAF approved resources to Costa Rica, mainly for the development of infrastructure projects. Thus, it granted a loan for USD 60 million to the Ministry of Public Works and Transportation (MOPT) to partially finance the Investment Program in the Atlantic Corridor which is part of the Mesoamerican Project, formerly known as the Puebla-Panama Plan.

The following objectives of the aforementioned Program are worth noting: i) conclude the primary works of the Atlantic Corridor in the Costa Rica section to promote the road integration of the countries included in the Mesoamerican Project; ii) provide users with an integrated, efficient, low cost, and safe transportation system; iii) promote the economic and social development of the northern area of the country, enabling more competitive commercial, agricultural, and tourism activities; iv) reduce vehicle operation costs; and v) reduce the rate of accidents along the corridor.

In addition, the Institution approved a credit line to *Refinadora Costarricense de Petróleo* (RECOPE) for USD 50 million to facilitate compliance with short-term working capital commitments. The company's activity is of strategic importance to the country.

CAF also approved a line of credit for USD 10 million to Banco Improsa, to promote the development of micro finances in the country, while at the same time supported SMEs by renewing the credit facilities to DESYFIN and COOPEMEX financial institutions.

SPAIN

During 2008, CAF's activity in Europe increased significantly to promote the Institution in Spain, and to create a network contact of entities, organizations, and businesses in the continent. Efforts were aimed at creating an active agenda to establish and strengthen relations with entities of the public, governmental, financial, entrepreneurial, and institutional spheres.

To this respect, CAF's action in Europe seeks to deepen relations with Spain as a strategic member, as well as with other countries and institutions of the continent such as the European Union and other international organizations. The initiatives include developing relations with other regions of the world, including Asia. In addition, CAF seeks to establish ties with financial institutions in European countries and other regions, in an effort to attract resources to finance development in Latin America.

Among other events and initiatives, CAF was present in:

- The Annual Meeting of the Asian Development Bank in Madrid FAO's Annual Meeting in Rome
- The Meeting of the Global Network of Ex-Im banks and Development Institutions (G-Nexid) in Geneva
- The Climate Change Conference in Oslo

In addition, the Institution has become a point of reference between Spanish enterprises, institutional organizations, and banking entities, as well as a promoter of businesses directed at Latin America, facilitating access to enterprises that seek activities toward the region.

In the III Edition of the Fundación Valenciaport Awards, CAF received a special award for its support for the internationalization of the Guarantee Trademark, an activity conducted through its First Class Ports Program.

The Institution also approved a capital investment of USD 5 million in the *Fondo de Inversión Libre BBVA CODESPA Microfinanzas* (Free Investment Fund), through which Latin American microfinancing institutions are granted access to financing in local currency. The objective of the capital participation is to promote the development of microfinancing in Latin America and strengthen commercial ties between Latin America and Europe.

MEXICO

During 2008, CAF approved USD 10 million to Mexico, to support the development of microfinancing in the country. Resources will be channeled through *Banco Compartamos*, to finance investment projects and working capital to the sector.

With cooperation resources, the Institution provided technical assistance and ongoing support to the organization in charge of managing the Microbus system, before and after the beginning of the Independence Road corridor in the city of Guadalajara, State of Jalisco.

It is also worth mentioning the initiation of the Governance and Political Management Program developed by CAF together with the George Washington University and the *Universidad Nacional Autónoma de México* (UNAM).

In the area of social development, CAF assigned non-reimbursable resources to the state of Yucatán to conduct studies for the design of a comprehensive system to manage home liquid waste utilizing new technologies, for the cities of Progreso and Valladolid.

In the SME and microfinancing sectors, the Institution approved a capital investment in MICRORED in Mexico, an entity specialized in financing micro enterprises, as well as a capital investment in the risk capital fund Latin Idea Venture Fund with investments in Mexican SMEs.

In the framework of the PLAC⁺^e, CAF provided support for the logistics of the workshop on opportunities of the Carbon Market for Transportation Projects, identifying business opportunities in transportation projects.

DOMINICAN REPUBLIC

During 2008, CAF initiated operations in the country with the approval of a loan for USD 75 million, aimed at supporting the Wide Approach Sector Program for the Dominican Road Sector, which will enable the improvement, rehabilitation, and maintenance of the country's road infrastructure.

In addition, in alliance with the Dominican Association for the Development of Women (ADOPEM), the Institution initiated a comprehensive training project aimed at youths with limited opportunities to pursue higher education. The training includes technical and human aspects, and provides tools for the organization of entrepreneurial activities and insertion in the labor market.

Approvals to other shareholder countries. 2008 (in USD million)

Client/Executing agency	Operation	Objective	Amount	Term (years)
Costa Rica			120.3	
Republic of Costa Rica- Ministry of Public Works and Transportation (MOPT)	Investment program for the Plan Puebla-Panamá Atlantic Corridor	Strengthen the human and ecological wealth of the Mesoamerican region in a framework of sustainable development, respecting cultural and ethnic diversity. Within this integration policy, efforts are made to improve the region's competitiveness, the rational administration of natural resources, the efficient investment in transportation and communications infrastructure, and the improvement of the economic and regulatory environment.	60	18
<i>Refinadora Costarricense de Petróleo (RECOPE)</i> (Costa Rican Oil Refinery)	Non-committed revolving credit line for the Costarrican Oil Refinery (RECOPE)	Provide financial support to facilitate compliance with short term working capital requirements, as the company's activity is of strategic importance for the country.	50	1
<i>Banco Improsa</i>	Financing for working capital	Finance working capital for the development of small and micro enterprises.	10	Up to three years
Various beneficiaries	Other operations with cooperation resources	Various	0.3	
Mexico			10.4	
<i>Banco Compartamos</i>	Financing for working capital	Finance working capital for the development of small and micro enterprises	10	Up to 3 years
Various beneficiaries	Other operations with cooperation resources	Various	0.4	Various
Dominican Republic			75.1	
Dominican Republic-State Secretariat of Finance	Wide approach program: road sector	Support the Dominican highway sector through a loan that will enable improvement, rehabilitation, and maintenance of the country's road infrastructure.	75	12
Various beneficiaries	Other operations with cooperation resources	Various	0.1	
Multinational			114	
<i>Empresa Propietaria de la Red, S.A. (EPR)</i>	Long term loan	Partially finance the Electrical Interconnection System for the Central American countries (SIEPAC), which is part of the Mesoamerican Project aimed at contributing with the region's integration and development process.	17	20
Aureos Latin American Fund LP	Share participation	Capital and quasi-capital investments in medium-sized enterprises.	15	
<i>Corporación Interamericana para el Financiamiento de Infraestructura, S.A. (CIFI)</i> (Inter- American Corporation for Infrastructure Financing)	Non-committed revolving line of credit	Finance investment projects, and foreign trade and working capital operations	15	Various
BLADEX	Financing for trade, working capital, and investment projects	Finance investment projects, and foreign trade and working capital operations.	50	Various
BBVA Codespa Microfinanzas FIL	Share participation	Contribute with the development of the microfinance industry in Latin America.	5	
Various beneficiaries	Technical cooperation			
	Various	12		
Total			319	



Southern Interoceanic Road Corridor, Peru.



During 2008, CAF reaffirmed its commitment to sustainable development and regional integration, updating the strategic framework upon which its Agenda for Comprehensive Development is based. One of the main inputs for updating this framework is the evolution of the integration processes in the region, which inspired the amendment of the Agreement establishing CAF to enable other Latin American countries to become full members in the Institution's structure.

The Agenda for Comprehensive Development proposed by CAF seeks high, sustained, sustainable, and quality growth: *high* to start bridging the development gap in relation to high-income countries and to compensate for population growth; *sustained* to prevent growth from being erratic and volatile as it has been in the last decade, and to ensure the continuity of economic progress and social welfare; *sustainable* in its environmental and social dimensions, to ensure the inter-generational viability of the natural character, respect cultural diversity, and support democratic governance in the region; and *quality*, in the sense that growth should be inclusive, thereby benefiting the largest possible percentage of the population in an asymmetrically equitable manner in favor of the least favored segments, so as to reduce inequality and poverty in the region.

In order to achieve these objectives, growth should be based on the preservation of the progress made in macroeconomic stability, the improvement of microeconomic efficiency, and a definite impulse to initiatives that promote social equity, inclusion, and the reduction of poverty. These conditions are essential to address the challenges and collective problems of the region in a clear and coherent fashion.

Moreover, sustained economic growth must be increasingly less dependent on the changing conditions of the international economic environment, and must be supported by a transformation of the economies, improving productivity and adding value to the national comparative advantages. Improvements in productivity require increases in all forms of capital investments: human, social, natural, physical, productive, and financial, since the only way to increase productivity is through greater availability and quality of the different forms of capital. In addition, investment increases competitiveness and enables a more effective and better quality international insertion.

This comprehensive vision is the result of an important research and knowledge dissemination program on subjects related to development and public policies, built both on the intellectual efforts of the Institution and the dialogue with the public, private, and academic sectors of Latin America. These efforts have generated a set of activities that are complementary to CAF's financial and business management, aligned with its strategic objectives, and aimed at providing institutional support to its shareholders.

The special programs that follow gather the different initiatives of CAF's Agenda for Comprehensive Development, organized in four components of strategic interest: infrastructure; social development; environment; and competitiveness, international insertion, and public policies.



Works East of San Jose. Santa Cruz-Puerto Suarez Road Corridor. Bolivia.



Construction in the Santa Cruz-Puerto Suarez Road Corridor. Bolivia.

INFRASTRUCTURE AGENDA

CAF's actions in infrastructure have been aimed mainly at improving access conditions and the capacity of the infrastructure network of its shareholder countries, as well as integrating and articulating this network at a regional level.

In this sense, the Institution has worked with other financial agents seeking new financing mechanisms for investment projects, by supporting the design, preparation, and structuring of new projects with specialized advisory and technical cooperation resources. In addition, CAF has defined strategies and actions to strengthen organizations and public entities related to planning, implementing, and maintaining infrastructure, to promote a more rational use of the resources assigned, and support the sector's sustainability.

In 2008, CAF incorporated new infrastructure sectors to the efforts to disseminate best practices and policies with sovereign clients. Thus, it started the Urban Mobility Observatory, the Sustainable Energy Program, and the Information Technology and Communications Program (TICAF).

Confirming its commitment to sustainable development in the region, CAF started an urban transportation initiative by creating an Urban Mobility Observatory as an instrument to disseminate information and expand knowledge and experience. This endeavor will enable the Institution to learn the main characteristics of transportation systems and urban areas, periodically compile and produce data and information that is comparable and reliable, and create homogeneous databases to establish solid planning processes. The information will facilitate decision-making on matters regarding infrastructure and public policies. In addition, the Observatory will contribute to the establishment of regional cooperation networks between authorities, transportation associations, as well as a network of knowledge that leads to improved quality of the processes involved.

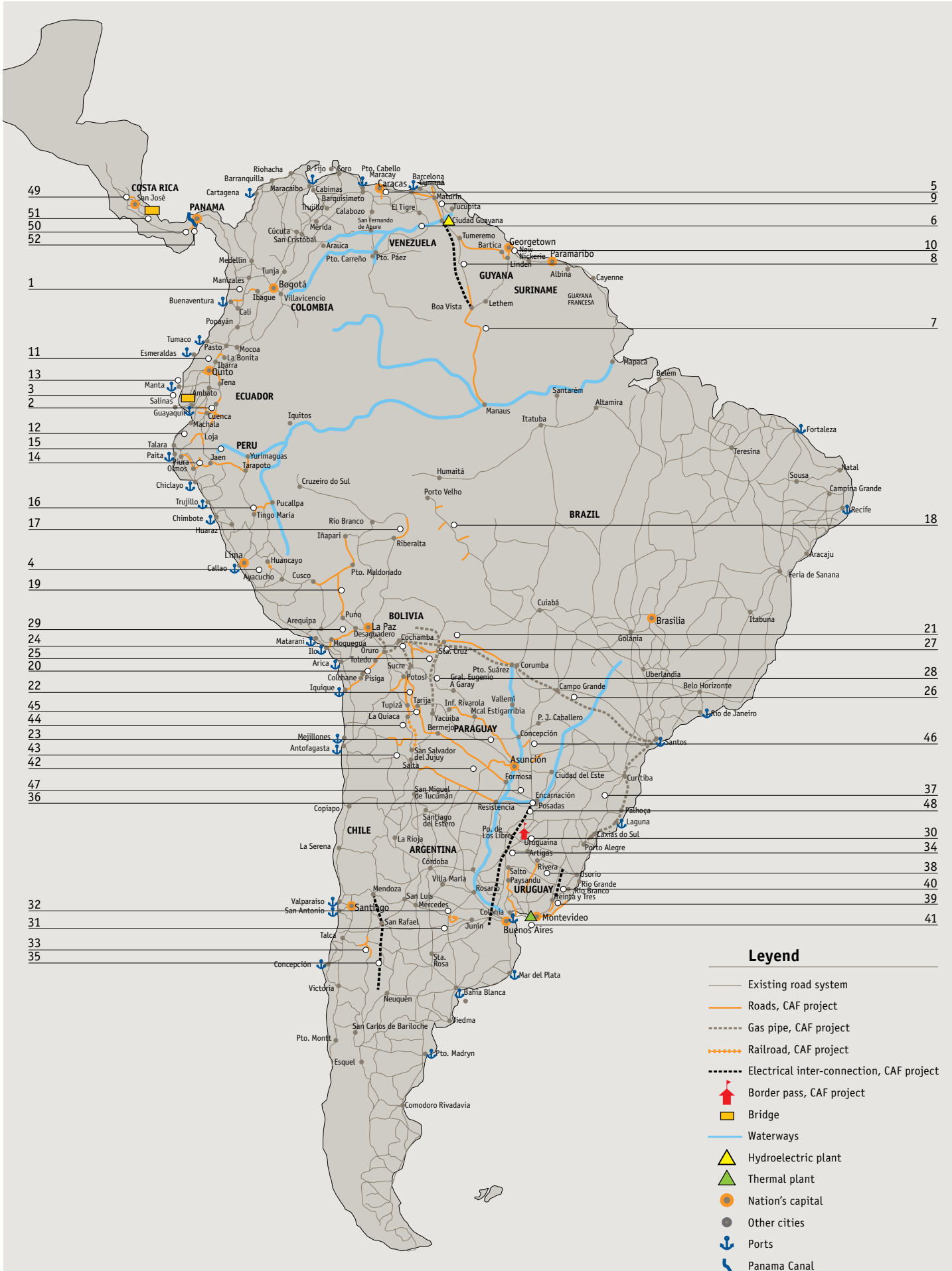
In turn, the Sustainable Energy Program seeks to support a harmonic development of the economic, social, and environmental aspects of the sector. To do so, it aims at creating a dialogue with the shareholder countries on sectoral issues so as to identify obstacles and opportunities, and promote the development of sustainable energy systems.

Further, TICAF seeks to advise shareholder countries regarding the opportunities offered by Information and Communications Technology (TIC) through the development of telecommunications infrastructure and new information applications that promote trade, business, education, health, the environment, citizenship, and governance. The program supports *intelligent infrastructure*, which consists of laying optic fiber next to the traditional linear infrastructure, which includes highways ("highways with fiber"), as well as railway tracks, or electrical lines, achieving comprehensive effects in social and economic impulse in communities with less services.

(USD millions)

	CAF's contribution	Total investment
Andean Axis		
1 Colombia: Buenaventura-Bogota Corridor	177.0	746.6
2 Ecuador: Amazonic connection with Colombia and Peru (Troncal del Oriente Road)	93.8	152.7
3 Ecuador: Segmented Bridge Project over the Babahoyo River	123.0	133.9
4 Peru: Rehabilitation of the Huancallo-Huancavelica Railroad	14.9	18.8
5 Venezuela: Railroad connection between Caracas and the National Network	360.0	1,932.0
6 Venezuela: Support for commercial navigation in the Orinoco-Apure River Axis	10.0	14.3
Guyana Shield Axis		
7 Brazil: Venezuela-Brazil Road Interconnection	86.0	168.0
8 Brazil: Venezuela-Brazil Electric Interconnection	86.0	210.9
9 Venezuela: Railroad Studies Guyana City-Maturin-State of Sucre	2.6	2.6
10 Venezuela: Road Studies Guyana City (Venezuela)-Georgetown (Guyana)	0.8	0.8
Amazon Axis		
11 Ecuador: Central Trans-Andean Connection	33.7	54.5
12 Ecuador: South Trans-Andean Corridor	70.0	110.2
13 Ecuador: International Cargo Transfer Port in the Port of Manta	35.0	525.0
14 Peru: Northern Amazon Road Corridor	110.0	328.0
15 Peru: Pre-investment border region with Ecuador	5.3	8.7
16 Peru: Central Amazon Corridor (Tingo Maria-Aguaytia-Pucallpa)	3.5	13.6
Peru-Brazil-Bolivia Axis		
17 Bolivia: Guayamerin-Riberalta Highway	42.0	45.5
18 Brazil: Road Integration Program in the State of Rondonia	56.4	134.2
19 Peru: Southern Inter-Oceanic Road Corridor (tranches 2, 3, and 4) and guarantees for private structuring	804.5	1,615.0
Central Inter-Oceanic Axis		
20 Bolivia: Bolivia-Chile Road Integration Corridor	138.9	246.0
21 Bolivia: Santa Cruz-Puerto Suarez Road Integration Corridor (tranches 3, 4, and 5)	280.0	585.5
22 Bolivia: Bolivia-Argentina Road Integration Corridor	314.0	642.0
23 Bolivia: Bolivia-Paraguay Road Integration Corridor	60.0	182.6
24 Bolivia: Integration "Y" Road Program	70.0	102.4
25 Bolivia: La Guardia-Comarapa Road Rehabilitation	21.0	34.7
26 Bolivia/Brazil: Bolivia-Brazil Gas Pipeline	215.0	2,055.0
27 Bolivia: Support Program for the Transportation Sector PAST IV	22.4	32.3
28 Bolivia: Transredes Gas Pipeline	88.0	262.8
29 Peru: Bolivia-Peru Road Integration Corridor	48.9	176.6
MERCOSUR-Chile Axis		
30 Argentina-Brazil: Paso los Libres-Uruguaiiana Border Center	10.0	10.0
31 Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa Alternate Route)	10.0	10.0
32 Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa Alternate Railroad Route)	35.0	50.0
33 Argentina: Buenos Aires-Santiago Corridor (access to Paso Pehuenche, RN40 and RN145)	106.7	188.1
34 Argentina: Electrical Interconnection Rincón Santa María Rodríguez	400.0	635.0
35 Argentina: Electrical Interconnection Comahue-Cuyo	200.0	414.0
36 Argentina: Road Integration Program between Argentina and Paraguay	110.0	182.0
37 Brazil: Regional Integration Program-Phase I. State of Santa Catarina	32.6	65.5
38 Uruguay: Mega-lease of the Main Road Connections with Argentina and Brazil	25.0	136.5
39 Uruguay: Road Infrastructure Program Phase II and III	140.0	615.4
40 Uruguay: Program to Strengthen the National Electrical System	150.0	621.0
41 Uruguay: Thermal Plant Project Punta del Tigre	28.0	165.4
Capricorn Axis		
42 Argentina: RN81 Pavement	90.2	126.2
43 Argentina: Access to the Jama Pass (Argentina-Chile)	54.0	54.0
44 Argentina: Studies for the Rehabilitation of the Jujuy-La Quiaca Railroad	1.0	1.0
45 Bolivia: Tarija-Bermejo Highway Program	74.8	200.0
46 Paraguay: Rehabilitation and pavement of the RN10 and RN11 Integration Corridors and complementary works.	19.5	41.9
Paraguay-Parana Waterway Axis		
47 Studies to improve navigation, institutional management, and financial schemes for the operation of the Argentina, Bolivia, Brazil, Paraguay, and Uruguay Waterway	0.9	1.1
48 Argentina: Railroad works Program for the Integration of Argentina and Paraguay	100.0	166.0
Mesoamerica		
49 Costa Rica: Investment Program in the Atlantic Corridor	60.0	80.2
50 Panama: Highway rehabilitation and improvements program	80.0	125.6
51 Panama: Binational Bridge over the Sixaola River	5.5	13.4
52 Panama: Panama Canal Authority, expansion program	300.0	5,250.0
Other	210.0	812.0
Total	5,615.9	20,499.5

PHYSICAL INTEGRATION PROJECTS FINANCED BY CAF



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Initiative for the Integration of Regional Infrastructure in South America (IIRSA)

During 2008, IIRSA's activities focused on promoting dialogue, both between governments and the civil society. To this end, the Successful Cases Workshop and the Leadership Forum for South American Integration were carried out during the second semester.

The Workshop launched a regional cooperation process for countries to exchange their successful experiences and generate mutual assistance activities. In turn, the Leadership Forum enabled the strengthening of project development by promoting public-private relations.

Regarding planning, the application of a new Environmental and Social Evaluation Methodology with Strategic Focus was achieved in Group 6 of the Andean Axis, and five training workshops were conducted in all South American countries. In addition, the methodology and training were applied with the Brazil and Paraguay teams in Group 3 of the Capricorn Axis. Moreover, the methodology for evaluating transnational projects was developed in the Santa Cruz-Puerto Suarez project in Bolivia. The methodology seeks to discriminate benefits among participating countries.

Finally, as a complement to the institutional strengthening activities, the Institution designed and carried out, together with ECLAC, the first course on development and integration of the South American regional infrastructure, with the purpose of offering participating government officials a perspective on the political economy and challenges faced in the development of integration infrastructure.

Likewise, CAF continued with the implementation of sectoral processes regarding financing instruments through the disbursement of funds for project preparation, frontier passes, and ICT, through the implementation of the Export Program by Postal Shipment and the first Executive Technical Group of South American Roaming.

PARTICIPATING COUNTRIES OF THE MESOAMÉRICA PROJECT



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Mesoamérica Project

The *Mesoamérica* Project is an initiative to integrate and advance social and economic development in the nine states of South Eastern Mexico, the Central American Isthmus, and Colombia –which joined the project in 2006. Colombia’s presence contributes to the articulation of this regional proposal with the current integration strategy in South America through the IIRSA initiative. Thus, four shareholder countries are already participating in the plan: Colombia, Costa Rica, Mexico, and Panama.

CAF has actively participated in this integration effort since 2001, as a member of the Inter-Institutional Technical Group and the Development and Financing Commission, created by *Mesoamérica* Presidents to support the project technically and financially. Thus, CAF contributes to the integration and development of the Mesoamerican peoples in matters related to infrastructure, inter-connectivity, and social development.

First-Class Ports Program

Aimed at improving the quality of port services as a strategic element to support regional integration and the development of competitiveness within export sectors, the First-Class Ports Program is built on three basic pillars:

- Previous CAF studies on logistics, competitiveness, and transportation
- Territorial planning studies carried out under the IIRSA initiative
- The port management model of the *Marca de Garantía* successfully implemented in the port of Valencia, Spain.

In its first phase, the program worked with the five Andean ports with the highest container traffic: Cartagena and Buenaventura (Colombia), Guayaquil (Ecuador), El Callao (Peru), and Puerto Cabello (Venezuela). Diagnostic studies were carried out in each port, and Quality Councils were established with representatives of the trade unions and all the groups that comprised the port community to guide the reengineering of critical processes. This phase was completed in 2007, and without precedent in the region, the following phase started with the creation of the Latin American Association of Port Quality (ALCP), a non-profit organization which holds the *Marca de Garantía* in the region, and provides the institutional framework for the sustained functioning of this port management scheme. Under the coordination and technical assistance of the ALCP, the port offers specific guarantees of service quality to its clients in each certified port. These guarantees create incentives for continued improvement of the handling of goods and management of ships that use these ports. The Association works through national chapters in each country, which serve as support to the operations in the five affiliated ports. The benefits of this process are evidenced by improvements in critical procedures in each port. In 2008, the ports of Cartagena, El Callao, and Guayaquil achieved their certification. As the Program continued, the ports of Santa Marta (Colombia) and Altamira (Mexico) were incorporated.

GeoSur Program

Within the framework of the IIRSA initiative, CAF sponsors the GeoSur Program since 2007. The objective is to contribute to increase the knowledge about the South American region and supporting development planning activities that require the use of geographical information. This Program seeks to facilitate access to the geographical information generated by regional institutions, offering it freely through Internet.

The geographical information network developed by GeoSur is comprised of national geographic institutes; ministries of infrastructure, planning, and environment; universities; and regional research institutions, among others.

During 2008, GeoSur achieved significant progress in its consolidation as a regional consultation mechanism for geographic data. The activities included: the completion of the development of a regional maps service aimed at planning territorial development and integration infrastructure; training of more than 50 specialists in the region in techniques for geographic data cataloguing; technical support to diverse institutions for the implementation of their national map services; initiation of the development of a South American Website, and the edition of a digital integrated elevation model of South America.

Cross-Border Integration and Development Program (PADIF)

From a renewed perspective of the Agenda for Comprehensive Development for Latin America, CAF promotes a strategic vision of border integration in the region, strengthening the adequate planning and coordination of programs among its shareholder countries. The Program provides access to the advantages of shared potential and opportunities for bi-national cooperation in order to achieve the objectives of integration and sustainable human development in the region.

Currently, through PADIF, the Institution promotes more than 12 initiatives to support the design and implementation of Bi-national Cross-Border Development and Integration Plans, the creation of Border Integration Zones (ZIF) among its shareholder countries, and sub-regional policies of the Andean Community (CAN) and MERCOSUR countries, aimed at supporting territorial management, coordinated planning, and a joint prioritization of projects dealing with physical integration, economic-productive development, and social and cultural promotion in frontier regions.

All these initiatives are undertaken with non-reimbursable technical cooperation resources of the Cooperation and Border Integration Fund (COPIF), created by CAF in 2008.

PROJECT OF CROSS-BORDER INTEGRATION AND DEVELOPMENT PROGRAM (PADIF)





CAF contributes to strengthening the capacities and talents of sectors traditionally excluded from society.

SOCIAL DEVELOPMENT AGENDA

Latin America and the Caribbean have achieved significant economic and social progress in recent years. Nevertheless, one of the main challenges faced by the region is to reduce poverty and inequality due to existing inequity and social exclusion. In fact, there are continuing deficit in housing, employment, health, nutrition, education, and basic services such as potable water, sanitation, and electrification. These constraints have an important impact on the quality of life and social mobility of the population with fewer resources in urban areas, and particularly, in rural areas.

As part of its sustainable development pillar, CAF has established as a strategic goal for all its activities the promotion of social and environmental sustainability in the region. Thus, in addition to its contribution to financing projects, programs, and activities with a social content, the Institution's actions emphasize the need to strengthen enterprises of the social sectors, to build alliances and agreements among different actors, and improve the analysis and solutions of the social and environmental problems of the region.

Within the framework of implementing its sustainability strategy, the Institution seeks to:

- Incorporate the social and environmental dimensions as cross-cutting issues to promote the provision of sustainable basic social services, mainly for the poorest and marginalized sectors of society.
- Ensure and promote the conservation and sustainable use of natural resources.
- Preserve and promote community and cultural development in the region.
- Advance in the incorporation of best practices in the area of corporate social responsibility.
- Promote the creation of opportunities for productive and quality employment for the most vulnerable groups of society.

Financing activities for projects, programs, and initiatives with a high social impact are structured through the following programs.

Integrated Water Program

By means of three strategies, CAF proposes a comprehensive support portfolio to facilitate access to quality services for the population that is friendly toward the environment, and ensures long-term sustainability:

Management of the comprehensive water cycle

CAF outlines a comprehensive treatment for the use and disposal of water, so that each one of the cycle's components is handled efficiently. The cycle starts with an evaluation of the environmental conditions of the water sources, taking into account the parameters for the conservation of hydrographic basins, protection of aquifers, and an adequate exploitation of environmental services and bio-trade. The water volumes available under sustainable conditions may be used either in irrigation systems to improve rural productivity, or in wa-

ter purification plants that ensure quality water for human consumption. The treated water is then carried to households by reliable distribution systems that minimize losses. Sanitation includes conveying the liquid residuals by networks to the sewage treatment plants before they are emptied back into the water bodies; management and transportation of rain water through drains and canals; and an adequate regulation and management of solid residuals. CAF has a number of support schemes available to its member countries regarding studies, projects, and programs that take into account the complete water cycle, emphasizing the particular needs of each region, in order to identify solutions that protect the environment and guarantee the sustainable supply of quality services.

Strengthening services' management

The objective of this strategy is to promote conditions that favour the creation or strengthening and modernization of sectoral institutions and operating entities that are autonomous, efficient, and respond to the needs of the population. The operating entities will need to have the necessary administrative, financial, and operational capacity to guarantee the quality of investments and sustainability of services, while contributing to the preservation of hydrographical basins and providing adequate disposal of residual waters and solids.

Regional management schemes

CAF supports the structuring of managerial and operational regionalization schemes for potable water and sanitation services in medium and small-sized municipalities of member countries. The strategy seeks to preserve local autonomy and promote regional participation mechanisms to achieve economies of scale and consensus aimed at establishing integrated processes regarding planning, financing, administration, technological development, and service operation and maintenance. In Colombia, for example, CAF has supported the development of Departmental Water and Sanitation Plans. These programs are led and coordinated by the departments which, supported by pre-investment resources from the National Government, design regional investment plans guided by criteria of solidarity, efficiency, and sustainability. The various sources of financing, including national, regional, and municipal contributions, as well as loans from multilateral banks, are channelled through a single investment fund managed by a fiduciary entity. Credit operations are guaranteed by securitizing future departmental revenue flows, including oil and coal royalties. The sectoral management and institutional modernization of the departments is promoted by hiring technical managers selected through public bidding contests among the best operating enterprises in the countries of the region.

Program to Ensure Social Investment

CAF has contributed to financing the Development Plans of its shareholder countries by providing their governments long-term loans for the implementation of public investment projects in economic and social areas. At the same time, the Program has been designed within the framework of the debt management and fiscal strengthening strategies of the member countries, enabling the Institution to address the actions advanced by governments in a timely and efficient manner.

The Program's objective is to contribute to the national governments' policies aiming to improve living conditions of vulnerable populations and offer development opportunities with a focus on comprehensive human development and territoriality. In particular, the Program seeks to ensure the necessary resources to finance public investment programs or projects that increase or adapt the levels of service and coverage, productivity, access, and training in the following sectors: agriculture, education, rural energy, sanitation, health, rural transportation, work, and housing among others.

Program for the Modernization of Technical and Technological Education

Demand for technical and technological education has grown significantly during the last decade, as a result of the technological changes and the effects of globalization. To address the demand by the productive sector with a quality supply, CAF offers a program to member countries, whose objective is to strengthen the technical and technological higher education through improvements in coverage, quality, and relevance of this type of education. The Program has two components:

- Improve the supply of technical and technological education by financing projects that bring together the productive and institutional sectors, the development of programs to update best practices for the directors of training institutes, and support the modernization of training institutes through a revolving fund that finances investment in infrastructure and equipment.
- Support the management of entities that govern higher education, by developing an accreditation system for technical and technological education, establish a Quality Council with the mandate to update institutes in the most recent developments and best practices, and strengthen governing entities in the use of diagnostic, evaluation, and cost-estimate methodologies.

Rural Development Program

During 2008, the Institution continued with comprehensive agricultural and rural development projects, with special emphasis on providing irrigation water together with a comprehensive management of water resources and the execution of a poverty reduction program for vulnerable populations, so that programs are environmentally sustainable and promote gender equity.

Social responsibility Program

During 2008, CAF strengthened its actions to improve capacities in low-income communities through programs and projects of social responsibility, located mainly in the influence areas of the operations financed by programs and projects of social responsibility. The initiatives focus on sports and musical instruction, training in basic skills and heritage rescue, and generation and support of local opportunities to contribute to the improvement of living conditions in these communities.

At present, approximately 210 partners are involved in various initiatives: 10 belonging to the international public sector, 60 to the local public sector, 80 to the civil society sector, and 60 to the private sector. These figures indicate an average five partners per

operation. In addition, CAF continued emphasizing the construction of alliances with strategic partners that can contribute to the sustainability of projects and to improve and increase comprehensive actions.

In this sense, it is worth noting the expansion of the agreements with the Spanish International Cooperation Agency (AECID), Repsol, *Fe y Alegría*, and the continued alliance with Codespa Foundation from Spain, the Ghella Entrepreneurial Group, and the Italian International Cooperation. At a national level, the active participation of the public sector in each country should be noted, particularly in regional and local settings, which have become key factors of potential replication; and of the private sector, by facilitating and multiplying corporate social responsibility on the part of banks, entrepreneurs, and the Institution. The initiatives are aimed at educating and training in symphonic and choral music, sports, cultural heritage, and local cooperation. The latter refers to the creation of community models of organization and social and productive self-management. In all of them, the comprehensive strategy is aimed at strengthening the social network, particularly in the most vulnerable segments –children, youth, and women– of the poorest population –farmers and indigenous population– and linked to socially solvent actors, partners, and operators able to multiply the impact and contribute to the sustainability of these initiatives, whose entrance vector –cultural, productive, or social– facilitates building citizenship and the exercise of social, political, and economic rights.

On the other hand, CAF, together with its country offices and diplomatic missions of the member countries, conducted and sponsored projects to contribute with the governments of the region in the promotion, management, and dissemination of integration in the cultural area.

CAF's Social Action for Music Program

Throughout the year, CAF continued consolidating its Musical Program. Recent advances were reflected in local concerts in the Andean countries and participation in international festivals. In these countries there has been a continued effort to strengthen the network of instrumental and choral students and teachers through itinerant workshops conducted by conservatories supported by the Institution. Regarding the alliance with *Fe y Alegría*, the school choral training projects concluded in Bogota, Colombia, Ciudad Bolívar, in Venezuela, and continue in El Alto in Bolivia, and Quito in Ecuador.

In addition, the choral chapter of the Musical Program was strengthened in Montevideo and some *favelas* in *Rio do Janeiro* and *São Paulo*. The *luthier* itinerant workshop was consolidated in Medellín, Colombia, with the musical instruments cultural company, particularly violins and violoncellos, forming the first satellite workshop as a result of the project. In La Chiquitania, Bolivia, the local crafts workshops produced their first generation of violins. An international seminar for orchestra and choir conductors from the entire Latin American region was held, with the active participation of foreign teachers and specialists. Meetings were also conducted for regional trainers in instrumental tech-

niques, specially strings and woodwinds. These events have provided a very significant stimulus for achieving tangible goals in the personal and professional development of the actors and participants in musical groups of member countries of the Institution.

Conceived as an instrument for human development, CAF's Social Action for Music Program undertakes permanent efforts in matters regarding institutionality and the measurement of social impacts. Peru, through its Ministry of Education, created the National Network of Children and Youth Symphonic Orchestras and Choirs of Public Education Institutions in the framework of the Open Schools program. In Bolivia, the Municipality of Santa Cruz de la Sierra became a part of the network of alliances to expand the teaching staff of the Choirs and Orchestras System. In Colombia, the Secretariat of Education of the municipality of Cali supported the incorporation of 14 new children's and youth's orchestras to CAF's musical network. In Venezuela, the Simon Bolivar Symphonic Orchestra was awarded the Principe de Asturias Prize for the Arts 2008. Its members are part of the musical network led by CAF, and currently many of them are multiplying the Institution's regional system. Regarding the measurement of impact, surveys have been conducted among children and youths participating in the workshops; most of them have improved their school performance and their behaviours at home and with the family.

Training in Basic Skills and Heritage Rescue Program

Regarding basic skills training and heritage rescue, CAF has continued the regional alliance with the Spanish Agency for International Development Cooperation (AECID), supporting the workshop-schools of the Andean region through training in basic skills and heritage rescue. Today, the Institution supports 16 such schools in the region. In Bolivia, close to 150 low-income youths benefited from the basic skills and traditional construction techniques training so they can contribute to the recovery of their regions' heritage and insert themselves in the labour market. In this area, the Institution concluded the initiative conducted by graduates from the Workshop-Schools of Sucre and Potosi, to save the rich musical tradition of the Chiquitano Baroque for posterity. In Peru (Arequipa, Cusco, Colca, and Lima) a new stage was initiated to support the training of close to 500 low-income youths in basic skills and traditional construction techniques to rescue the architectural heritage of these cities.

CAF has also contributed to labour placement of youths with records of delinquency through the *Constructor Popular* (Popular Builder) School in the municipality of Revenga, Venezuela, and computer and technology training in the poor neighborhoods of Caracas. Along the same lines, CAF initiated skill's training for 600 low-income youths in Buenaventura, and started a project to train 1,100 youths in Ciudad Bolivar and Cazuca in Bogota, Colombia with the objective of placing them in the labour market. Also, the Superatec project operates in poor neighborhoods in Caracas and trains young people of both sexes, promoting and following-up on their labour placement. In Ecuador, CAF started a project with the *Centro del Muchacho Trabajador* (Working Youth Centre) where 360 youths

are trained in skills; and in the Dominican Republic, in partnership with ADOPEM, a two-year project was started in skills training for about 860 youths.

Sports Training Program

In sports training, CAF expanded its actions aimed at strengthening the fundamental aspects of human development, particularly nutrition, in some cases in collaboration with local governments. In this way, Bolivia advanced in the process of establishing local capacities in three departments through sports clinics carried out within the framework of the Social Action for Soccer Program. In Colombia, actions are taking place in Barbosa, Bogota, Buenaventura, Cali, Cartagena, Medellin, Puerto Tejada, and Sincelejo through alliances with executing agencies such as *Fundación Colombianitos* and the *Cajas de Compensación Familiar*. In Ecuador, the project with the Fundacion FMG has concluded. In Peru, operations continued in El Callao and Manchay to generate opportunities for children in these locations to participate in regular sports activities. In addition, an initiative was approved to contribute to the comprehensive development of 50,000 children up to 12 years old by creating educational resources based on games, and by providing training for elementary school teachers in the Departments of Lambayeque and Cusco. At the same time, the execution of the Social and Family Inclusion Through Sports Project for the Population with Intellectual Handicaps advanced in Arequipa (Peru) and Caracas (Venezuela).

Building Local Opportunities Program

Through this program, the Institution continued projects with a multi cultural approach to health, education, and savings and investment culture. Along these lines, it advanced substantially on the second stage of the Building Bridges in Bolivia Program dealing with reproductive health in Aymara and Quechua women, and completed the actions to improve the health and nutritional conditions of the population of El Alto and Potosi, by connecting 134 schools and 20 health centers to the gas network. In addition, the Comprehensive Educational Program in the Municipality of Calamarca concluded with a positive impact. At the same time, CAF also completed the Comprehensive Education Program in the municipality of Calamarca with a positive impact. The Institution also supported the heritage recovery efforts in Tiwanaku to stimulate tourism based on the heritage of the area.

The Randimpak Project in Ecuador was expanded, incorporating 15,000 women and their families in five provinces of the Central Sierra, contributing to their training in the areas of production, health, education, financial culture, and certification and marketing of their products in national and international markets. In the framework of the same project, a Telemedicine operation was initiated; three projects concluded that had been co-financed in partnership with REPSOL YPF Ecuador: with *Casa Campesina* (Farmer's House) in Cayambe, living conditions were improved for at least 800 families belonging to the indigenous and farming communities of the District of Cayambe, by strengthening the organizational and technical capacities of the human resources of the district and developing and promoting agricultural and trade activities; with *Fondo Ecuatoriano Populorum*

Progressio (Populorum Progressio Ecuadorean Fund), in the Pedro Carbo District, a production, trade, and local financing system was applied, which enabled the improvement of living conditions of at least 82 families; with the *Fundación Desarrollo Integral para el Futuro* (Comprehensive Development for the Future Foundation), strengthened the productive capacity and citizen participation of at least 500 women in the Districts of Tulcan, San Pedro de Huaca, and Ibarra.

The implementation of the project with *Institucion de Viviendas del Hogar de Cristo* continues, promoting microentrepreneurial management, community organization, and access to credit for 550 poor families in Guayaquil. Also in Ecuador, the Cultural Andean Routes Project was approved and is being implemented. In the case of Peru, the Institution supported activities to consolidate and expand the local cooperation networks in Huaura and provided support to 2,500 poor rural women in Puno, San Martin, and Ucayali so they could join the labour market. The positive development of the Manchay project is noteworthy: Abilities for a Better Future, a comprehensive initiative based on the education of children and youths, adult training, and the generation of positive leadership in the community. Along the same line, the Institution continued its support of the Alternative Rural Schools Project, an innovative and successful response to the challenge of secondary education in the rural environment. In Lambayeque the project aimed at the consolidation and expansion of the Rural Entrepreneurship and Microfinance Development Program created and trained a total of 98 Savings and Loans Unions. Finally, 100 artisans grouped in 10 organizations in Cusco received support to improve their production and marketing techniques in harmony with the environment.

In Colombia, the Institution supported the project that contributes to training children in the communities of Medellin, through the use of computers and technological tools; training in basic skills of 1,700 youths in Buenaventura, Ciudad Bolivar and Cazuca in Bogota; training in labor and micro entrepreneurial skills of 500 low-income families in Cali. In Argentina, strengthening of management capacities and creation of family micro enterprises in families that emigrated from the Las Villas and Las Villas bis neighbourhoods in Buenos Aires.

In summary, the portfolio of comprehensive social responsibility projects, financed through the Human Development Fund (FONDESHU), incorporated 22 new projects during 2008, and 18 others, initiated between 2004 and 2007 continue under execution. There are 40 projects being implemented and 18 that concluded during the year. In all these programs and projects there have been specific and successful results that have facilitated the beginning of a second phase of development and consolidation, and the participation of new actors.



Workshop-School, Sucre. Bolivia.

Social Responsibility Program

CAF's Social Responsibility Program is an initiative that supports innovative projects which, through educational tools in the fields of music, sports, basic skills, and generation of local opportunities, contribute to strengthen the capacities and talents of sectors traditionally excluded from society so they can be agents of their own development. The program supports initiatives related to areas such as:

Musical training

Music is universally recognized as an ideal art to educate because of its ability to build up intellectual, physical, emotional, spiritual, and expressive aptitudes in individuals. With the Andean Musical Movement, aimed at social rescue and strengthening citizen culture, CAF contributes to a comprehensive training of children and youth in a way that promotes the more noble values of individuals and helps strengthen family and community ties, articulating the social fabric of a region characterized by fractures and inequity. In this environment, the program is focused on the training of children, youths, and teachers in the orchestral and choral areas as well as training the luthier masters.

Sports training

Through projects directed to communities at risk, the program channels and develops sports potential as a prevention and social rescue tool through sports training in children, youths, trainers and local arbiters. Sports enable citizenship culture and contribute to a comprehensive human education that promotes values of discipline and solidarity, responsibility and respect, as sports ethics criteria translated into society.

Basic skills training and heritage rescue

With the objective of creating capacities in productive skills that will enable youths to enter the labor market and preserve the collective historical and cultural heritage, a program is implanted in support of schools that offer practical training in skills such as masonry, plumbing, electricity, carpentry, stonecutting, gardening, blacksmithing and ironworks, and computers, among other. All the schools also work the human aspect, reinforcing self esteem and leadership capacity, which together with improved job prospects, is a powerful prevention and/or social insertion instrument for youths.

Local opportunities

Micro interventions at a local level seek to explore novel initiatives aimed at creating capacities in excluded communities, to increase their real opportunities for progress. Organization, training, inter-cultural exchanges, and gender equity, are crosscutting issues that unify these projects characterized by their small scale, active participation of the community, and emphasis on the model's potential for sustainability and duplication.

The projects address areas such as strengthening and organizing the demand for goods and basic public services by the community (education and health), promotion of savings and investment, creation of local cooperation networks, and improvement of the productive culture (tourism, agriculture, and crafts, among other).

It is expected that the projects may be potentially duplicated and/or scalable and have reasonable sustainability expectations. This requires an active participation by the community, as well as from other relevant local actors, including regional and local governments.

Governance

Governance and Political Management Program

The Governance and Political Management Program, created by CAF seven years ago, continues to operate in alliance with The George Washington University and local universities in Bolivia, Colombia, Ecuador, Peru, and Venezuela. In 2008, Argentina joined the program with *Universidad Nacional del Rosario* and *Universidad de San Andrés*.

The objective of the program is to provide a comprehensive vision of the problems of economic and social development under an articulated framework of actions that take into consideration technical elements of negotiation, as well as political, economic, and social feasibility. The program is unique, bringing knowledge and experience to the leader's workplace, combining theoretical-academic work with practical realities, and focusing on addressing municipal demands. With a duration of six months per distance learning module, both the inauguration and closing take place simultaneously across countries. The program had 7,100 graduates at the end of 2008.

Leadership for Change Program

During 2008, CAF continued promoting the implementation of the Leadership for Change Program initiated in 2002. The program seeks to position the natural leader as a tool for modern development to guide the people toward sustained development. In the framework of governance, training natural leaders in the new visions of leadership covers from general learning –that aims at strengthening democratic values– to competence in the private and public environments, to mobilize the resources to address the challenges of each situation in a consistent manner. In 2008 CAF achieved the consolidation of this program in the five Andean countries. By the end of the year, 10,730 natural leaders had been trained.

The Leadership for Change Program is considered an example of social investment in the field of leadership with obvious repercussions: it is innovative in its vision of leadership, the comprehensive training lasts six months during which it educates in values and tools, and the natural leaders are selected from ages between 18 and 50 through transparent, fair, and democratic processes. Leadership for Change is a pioneer program in terms of its formula and novel because of the support given by an institution such as CAF, which promotes and implements it in its shareholder countries.

Regional Updating and Improvement of Local Management Program (PRAMEG)

PRAMEG's objective is to continue the modernization process of land registries in ten municipalities of the Andean countries per year, with the aim of creating more efficient organizations, with the capacity to plan, manage, increase their revenues, and coordinate their actions by obtaining resources that ensure greater efficacy in the provision of services and in addressing the needs of citizens. In 2008, the municipalities served through this program were: in Tarija, Warnes, and Trinidad in Bolivia; Floridablanca and Barrancabermeja in Colombia; Porto Viejo and Machala in Ecuador; Lince and Breña in Peru; and Lecheria in Venezuela.

Tools for Governance and Consensus Building Program

During 2008 CAF began implementing the Tools for Governance and Consensus Building Program in its second phase by conducting Persuasive Negotiation Workshops through the *Cambridge International Consulting* (CIC).

This training activity developed in the second phase was aimed at improving the negotiating abilities of those currently registered in the Governance and Political Management and Leadership for Change programs implemented at a regional level, as well as for former students of both programs as a part of the continuing education that leaders should pursue.

During the training session, the Harvard University Negotiation Model was analyzed, based on the perspective of negotiation as a process, the analysis of the value added in this field, and its efficiency.

There were presentations on tools for persuasion aimed at attitude changes, ethical principles, and steps in persuasion. The workshop closed with a presentation on “The power of communications: its individual tools and the organization of contents”.

By the end of 2008, training had been provided for 3,340 main actors and leaders participating in CAF’s governance programs in Bolivia, Colombia, Peru, and Venezuela.



ENVIRONMENTAL AGENDA

CAF contributes to the conservation and sustainable use of the ecosystems and natural resources through the support of conservation, restoration, and sanitation projects, promotion and development of environmental goods and services markets, strengthening the quality levels of investment toward the sector as well as institutional strengthening, and the promotion of social responsibility.

Biodiversity Program (BioCAF)

The objective of the Biodiversity Program (BioCAF) is to promote the conservation and sustainable use of ecosystems, natural and genetic resources, and biodiversity. Within its framework, the Institution has defined three sub-programs:

- Promotion of initiatives to conserve ecosystems and species in the region
- Promotion of mechanisms to compensate and/or pay for environmental services for the conservation of ecosystems that generate such services
- Promotion of the development of the biodiversity and genetic resources markets (for example, biotrade)

In the first sub-program, projects were approved that included activities such as the implementation of productive strategies to develop rural communities while simultaneously promoting the conservation of local ecosystems (for example, projects of the Humedales Foundation in Colombia, National Service of Protected Areas in Bolivia, Natura Foundation in Ecuador, Peruvian Foundation for the Conservation of Nature in Peru, and International Conservation, in Venezuela).

Regarding the development of the biodiversity market, projects were launched seeking a range of outcomes from the sustainable use of biodiversity by rural communities (for example alligator and waterhog in Bolivia and a castor-oil plant in Colombia), to the promotion of ecotourism (for example eco-route in the Sumaco Biosphere Reserve) and the conservation of biodiversity (for example, the Arlequin frog in Ecuador). In addition, under the framework of the CAF-GEF draft project "Financing facilitation for biodiverse businesses and support for the development of market activities in the Andean region", CAF conducted three consultations: two of them updating and preparing the final version of the proposal to be submitted to the GEF to initiate the activities promoting biotrade between Colombia, Peru, and Ecuador; and the other to prepare a number of activities with a view to starting the project.

Latin American Carbon, Clean and Alternative Energies Program (PLAC⁺)

CAF established the Latin American Carbon, Clean and Alternative Energies Program (PLAC⁺) in 1999 as a mandate of the CAN presidents. Initially, the program focused on the dissemination and training in climate change and its impacts as well as on institutional strengthening related to educational initiatives for introducing the public and private sectors to the initial activities related to the Greenhouse Gases (GHG) reduction market.

Through the PLAC⁺, CAF contributes to mitigate the global problem of climate change and promotes the use of clean and alternative energies in Latin America as a contribution to sustainable development in the region.

The program has established the following three objectives to carry out its mission:

- Promote and actively participate in the development of emission reduction markets and GHG capture.
- Support the identification, development, and financing of projects dealing with GHG, and clean, alternative, and efficient energies in Latin America.
- Strengthen the national institutions and mechanisms to stimulate and consolidate the different GHG, and clean and alternative energies markets.

The PLAC⁺ is a pioneer in the GHG reductions market, and one of the main actors in Latin America and the Caribbean, and is the first successful program to purchase reductions of emissions of GHG in a regional development bank, through a number of mechanisms: the Clean Development Mechanism (MDL, in Spanish), Government of the Netherlands (for about USD 78 million); Spanish Government for the purchase of 9 million tons of CO_{2e}; private buyers, and voluntary buyers.

During 2008, CAF signed Emissions Reduction Purchase Agreements (ERPA) for 1,354,639 tons of CO_{2e} for the Government of the Netherlands and established 688,032 tons of CO_{2e} as exclusive agreements for the purchase of GHG for the Government of the Netherlands. The projects involved in ERPA for the Government of the Netherlands are: Xacbal Hydroelectric in Guatemala, Papaloate Hydroelectric in El Salvador, and Transmilenio S.A. in Colombia. The exclusive contracts for the purchase of emissions reductions have been signed with the ENERSA closed cycle plant in Honduras and the Manuelita Sugar Mill in Colombia.

For the Spanish Government, within the Carbon Ibero-American Carbon Initiative (IIC in Spanish), a contract was signed for the reduction of GHG for 1,870,202 tons of CO_{2e} from the following projects: Monterrey Pizano Forestry in Colombia; La Calera Farm in Peru; BRT EMOP Q in Quito, Ecuador; and BRT Transmetro Barranquilla in Colombia. CAF established preferential agreements and exclusive contracts for 1,165,000 tons to purchase emission reductions in favour of IIC from the following projects: Pizano II Forestry in Choco-Colombia; *Compostaje en Biorganicos del Otun* (organic compost) in Pereira, Colombia; ENDE Transmission Lines in Bolivia; Biogas in Levaduras Levapan in Colombia; Cartavio Sugar Mill in Peru; and BRT Guadalajara, in Mexico.

In addition, CAF participated in different scenarios to promote the carbon market, such as *Carbon Expo* in Cologne, Germany, and the Renewable Energy Investors Forum and the Latin American Carbon Forum in Chile. In these two events CAF participated and made presentations in the programmed academic events.

CAF also supported the identification of projects dealing with clean and alternative energies developed by the different business areas. Three of these initiatives were held with financing from the joint line of credit with KfW in Bolivia, Colombia, and Uruguay.

Natural Disaster Risk Prevention Program

The objective of PREVER is to support the prevention, mitigation, and attention to the socioeconomic and environmental impacts associated with natural disasters and changes in natural systems, so as to improve the quality of life of the populations who are most vulnerable to these phenomena.

With this purpose, CAF has focused in four areas that address the most important challenges in the region:

- Risk management and reduction of vulnerabilities associated to El Niño Phenomenon
- Strengthening contingent services in case of disasters
- Adoption of measures and development of projects aimed at promoting adaptation and reducing vulnerabilities in the face of climate changes
- Risk prevention from a municipal perspective, with special emphasis on territorial organization

During 2008, the Institution provided a consultancy to finalize a contingent financing proposal for its shareholder countries for the prevention of emergencies and attention to those affected by natural phenomena.

Cleaner Cities and Industries Program

In a regional context, the programs for cleaner production, sustainable consumption, and urban environmental management have become specially relevant in the productive and services sectors, due to recent environmental regulations and the standards established by international markets and entities that offer financing to these sectors.

The Program operates in three broad lines of actions: institutional strengthening in the public and private sector, implementation of cleaner production techniques in SMEs, and the promotion of incentives and financing mechanisms for cleaner production.

Program for Sustainable Development in Financial Institutions

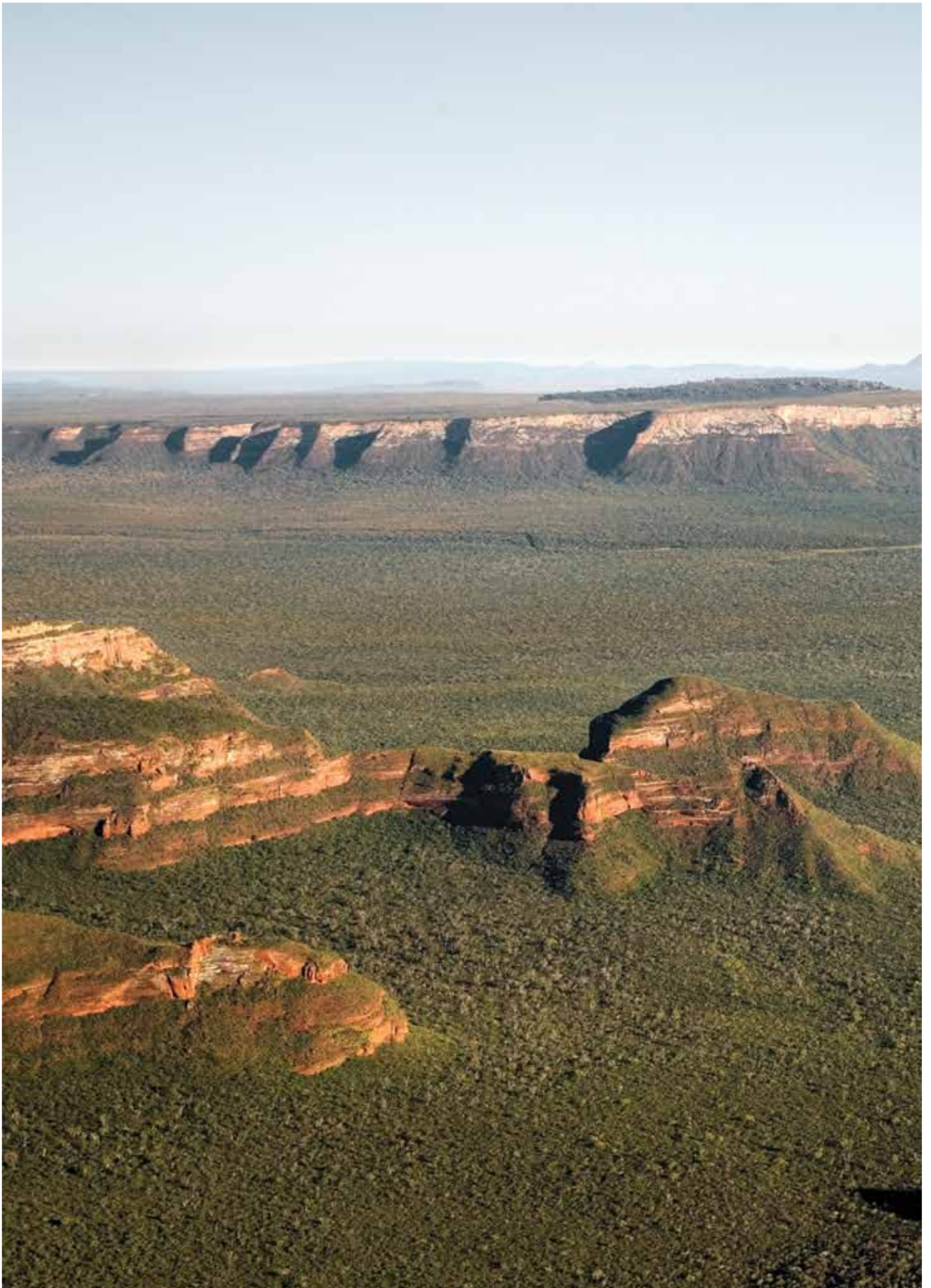
This Program seeks to promote the internalization of the principles and practices of environmental management in the financial sectors of the region. In the long term, the Program aims at incorporating changes in the financial systems of the countries to promote the adoption of environmental management in financial practices, and the development of a training and dissemination strategy so that entities can reduce risks, and operational costs, and create new business opportunities by incorporating the concept of sustainable development in their management practices. The Program is based on a joint working agenda with local actors and financial institutions that are CAF partners and clients.

The Program has had good reception in the financial sector, as it has trained the officials involved in the risk analysis of investments and loans, where environmental and social considerations are not addressed, mainly due to the lack of training and knowledge. In addition, the initiative has a positive influence on the target group of clients that receive CAF financing.

CONDOR Geographic Information System

CONDOR, version 3.0 is a Web based information tool which uses a specialized geographic information system software (ArcGIS Server), with the objective of enabling the integration of environmental, social, and economic variables for the identification and preliminary evaluation of risks and opportunities in infrastructure projects in Latin America, and specially in the Andean region.

During 2008, the system was deeply re-engineered to enable the migration to a more modern technological platform, with a wide capacity for automatization, modification, management, analysis, and graphic display of the information, as well as an update related to the relevance and number of available thematic layers and their geographic reach.



Santiago Sierra, Bolivia.



CAF supports the Women Against Poverty Project, which seeks to promote innovative experiences of women entrepreneurs in the rural sectors in Bolivia, Colombia, Ecuador, Peru, and Venezuela.

COMPETITIVENESS, INTERNATIONAL INSERTION, AND PUBLIC POLICIES AGENDA

CAF undertakes out activities to promote the development of productive and human capital, strengthen the competitiveness of nations, promote the development of micro enterprises and other sectors with limited access to financial capital, support the strengthening of governmental institutions, contribute to the achievement of consensus regarding public policies, and support processes of economic integration and insertion in the international economy.

Competitiveness Program (PAC)

During 2008 the PAC, emphasized the identification of opportunities to enable institutional strengthening and local economic development in a number of regions, working on traditional areas: cluster development, improvement of the business environment, and strengthening entrepreneurial capacity. In this sense, the dissemination of experiences and lessons learned from the Program has played a key role in its evolution.

In addition, the Institution made efforts to expand the geographic reach of the Program by identifying opportunities and promoting project design in Argentina, Costa Rica, Panama, and Uruguay.

Regarding the first action area, cluster development, the PAC focused on supporting the Departmental Competitiveness Councils through the project called "Bolivia: Innovative and Organized for a Comprehensive Development". In addition, support was given to the economic development of the Department of La Paz through two projects focused on economic sectors with great productive potential: the first was the "Los Andes Products for Emerging Markets", seeking to strengthen the milk and cocoa chain in several municipalities. The second was a training and technical assistance program to improve the production of crafts and jewellery in the municipality of La Paz.

In Ecuador, projects were promoted aimed at strengthening the productive capacity of small suppliers of the horticultural and textile sectors through the implementation of inclusive businesses projects with the participation of leading enterprises in both sectors. In matters of local development, support was given to the municipality of Quito and the Manta and Posorja regions through agreements seeking the diversification and strengthening of various productive sectors. It is important to highlight that in the floriculture sector, a sector of strategic importance for the industrial advancement of the country, work has begun to achieve a productive transformation.

Regarding the contributions of the PAC in Peru, it is important to highlight the initiatives in the areas of influence of infrastructure projects financed by CAF. In Cusco and Puno (IIRSA South), projects were launched to develop productive capacities in the production of alpaca and trout. In addition, in the Amazon Portal region (IIRSA North) support was provided for the sustainable development of four different productive chains.

In Colombia, there was an interesting project for the development of a chain of competitive suppliers in terms of quality, cost, and delivery dates in the auto parts sector. In addition, the second phase of the “Methods for the Reinvention of Logistics in the Agro-export Businesses” (MERLIN) was implemented, aiming at developing a technical-logistic framework that enables access of perishable products (flowers, fruits, and vegetables, among others) to international markets.

In Uruguay, the first steps were taken to identify specific projects regarding competitiveness, and together with the Administration of Canelones and the Ministry of Industry, Mining, and Energy, the Municipality of Canelones was selected as a pilot zone to design a local productive development project.

Two important projects started in Venezuela. On one hand, the development of the candle export cluster, aiming at developing the capacities of a group of twelve producers to turn into an exporting consortium. On the other hand, support for the producers of Venezuelan rum, to implement a strategy that will enable them to position the trademark ‘Rum of Venezuela’ abroad, and promote integration among the actors that comprise the value chain.

Regarding the second action area, improvement of the business environment, the PAC concentrated its efforts on conducting studies to identify the obstacles faced by businesses in the countries of the region.

The Peru portfolio focused on projects to promote the culture of quality and the establishment of the necessary technical norms to maintain the standards required in international markets. These projects were conducted jointly with the private and public sectors. In Bolivia, the PAC supported the design and publication of a “Guide to Simplify Administrative Paperwork” in the municipal sphere.

Regarding the third action area, strengthening entrepreneurial capacity, in recent years, PAC has been promoting the strengthening of incubators and pre-incubators, the creation of contests for innovative ideas and business plans, the establishment of university networks to service entrepreneurs, as well as the design of computer-based and on-site classes for entrepreneurs.

In addition, during 2008 two projects were negotiated with financing from the Spanish cooperation. On one hand, a study to develop conceptual support and diagnose the situation of cooperatives in Bolivia, Ecuador, and Venezuela, as well as to evaluate international best practices that could serve as models. On the other hand, a project that promotes and strengthens technological innovation in the region. In addition, with funds from the Italian cooperation, a project was started in Peru to create a system to promote fair trade in the export clothing industry production chain, aimed at gaining access to the market and promoting responsible competitiveness.

In addition, in the month of May the PAC organized the “Fourth International Competitiveness Meeting” in Quito, Ecuador, where room was provided to reflect and exchange experiences related to the improvements in the business environment. Later, in the month of August, the conference “Efficient Strategies for Local Development” was held, organized jointly by CAF, the National Planning Department of Colombia (DNP), and the OECD-LEED Program. The focus of discussion in the conference was the importance of efficiency and effectiveness of public policies for economic development and social inclusion at a local level.

Other events worth highlighting where the PAC participated are: the seminar on ‘Opportunities and Challenges for SMEs in the framework of the APEC’ (Peru); the regional forum ‘Technology Parks Entrepreneurship and Incubation: a Vehicle for Innovation and Competitiveness’ (PARQUETEC, Costa Rica); the ‘Third National Forum on Competitiveness in Panama’ (CNC, Panama); the ‘Third Latin American Congress on Clusters 2008’ (DESEC, Mexico); and the ‘Network of Technological Innovation Centres as Instruments for Development and Competitiveness in South American Countries’ (UNIDO, Colombia).

Access to Financing for Micro, Small and Medium Enterprises (MSMEs)

In view of the importance of their contribution to an equitable and sustainable development in the region, CAF supports the development of micro, small and medium sized enterprises. In line with this, and particularly aware that the lack of access to financing constitutes one of the main obstacles affecting the entrepreneurial activity of MSMEs, the Institution promotes the design and use of novel mechanisms aimed at facilitating the sector’s access to financing.

The success of CAF’s actions rests mostly on the alliances it weaves with strategic local partners that share its interest and have proven capacity to implement programs centered on improving the financial conditions of MSMEs. These partners include microfinancing institutions (MFIs), banks, and other financial institutions, various risk funds, non-governmental organizations (NGOs), corporations that sustain supplier and distributor networks composed of MSMEs, credit guarantee systems, and public agencies that deal with the sector.

A positive activity supported and promoted by CAF is the consolidation of the microfinancing activity in the region. For more than 10 years, the Institution has approved operations with over 150 MFIs, including capital contributions, lines of credit, subordinate loans, and partial guarantees for bond issues through capital markets. Currently, CAF’s active portfolio supports close to 40 institutions and investment funds dedicated to servicing microenterprises.

In addition, the Institution promotes the structuring of other financial support mechanisms for MSMEs. These include the design and implementation of shared risk mechanisms with local partners, among which are co-financing programs, partial guarantees and reinsurance,

through which CAF enables MSMEs to gain creditworthiness with financial institutions. In addition, it contributes to create alternative mechanisms such as discount of receivables or the expansion of leasing for MSMEs, while at the same time promoting the development of programs that bring these enterprises closer to the capital markets.

It is important to mention that, in addition to promoting competitive financing, CAF explores intelligent instruments to promote the sustainable development of enterprises through the promotion of entrepreneurial culture and innovation. In this sense, the activities undertaken by the Institution to promote the risk capital industry in the region are noteworthy. These activities contribute to maximize the success of entrepreneurial activity with high growth potential which may be found both in the early stages of development or at higher stages of maturity, but still with important growth potential. In this field, the Institution not only collaborates with technical assistance resources, but also invests in seed and venture capital funds, both locally and regionally, and based on its experience, seeks an active participation in the structuring of the funds.

Corporate Governance Program

During 2008, the Corporate Governance Program continued its activities aimed at developing tools and concepts, as well as disseminating and implementing best practices in corporate governance pilot cases in different entrepreneurial organizations in the region.

As a cross cutting project, a regional program was initiated in Bolivia, Colombia, Ecuador, Peru, and Venezuela with two well defined goals. The first objective is to promote the adoption of best practices in corporate governance as well as formulating recommendations. With this in mind, the legal frameworks within which State Owned Enterprises (SOE) operate in the region were analyzed, as well as their relationship both with the Outline of the Andean Corporate Governance Code and the OECD recommendations for this type of enterprises. The second objective is to facilitate the implementation of best practices in corporate governance applying them in 10 SOEs that may be used as an example and regional reference, so that the program can be replicated in other state enterprises, thus extending the culture of good corporate governance.

In addition, in collaboration with ECLAC, an evaluation of the relationship between good corporate governance (GCG) and economic development was conducted, analyzing the factors that stimulate financing and investment in Latin America.

CAF has also implemented specific projects in a number of countries. In Argentina, the Institution supported the Financial Stability Centre which developed a methodology that contributed to the implementation of good corporate governance practices in Argentinian enterprises and banks.

In Colombia, jointly with the Superintendencia de Sociedades, a large survey was conducted (about 25,000 enterprises not listed on the stock exchange) about corporate gov-

ernance and social responsibility. The results led to a diagnosis of the practices of both subjects in the enterprise sector. In addition, an agreement was subscribed with the Stock Exchange of Colombia to sensitize and support a group of 20 enterprises in the process of designing, adopting, implementing, and complying with good corporate governance practices. Agreements were also subscribed with the companies Aguas del Magdalena and Aguas del Cesar to support the implementation of a Corporate Governance Code in these publicly owned institutions.

In Ecuador, an agreement was approved with the Quito Stock Exchange to train university students. The goal is to provide future professionals with the necessary tools to apply Good Corporate Governance (GCG) practices. It must be noted that this project not only aims to create a Corporate Governance Academic Unit, but also seeks to motivate students and teachers to research and update the best practices in the area of corporate governance.

Activities in Peru during 2008 developed in two levels. The first was the financing of the dissemination and promotion of the “Corporate Governance Good Practices Contest”, which attracted many participants and enjoyed wide press coverage. The second was the evaluation of the corporate governance of the Caja de Valores y Liquidación (Securities Depository and Settlement Chamber) of the Lima Stock Exchange (CAVALI).

In Venezuela, an agreement was signed with the Venezuelan Association of Executives (AVE) for the implementation of a “National Corporate Governance Program” to achieve methodological strengthening, training, and the necessary technical development for the generation of networks of experts in corporate governance (specialized consultants and independent directors), as well as to disseminate the benefits of GCG and the adoption of its principles in the SMEs and family enterprises in Venezuela.

As a part of its dissemination of information function, CAF directly participated in the development of three workshops in Venezuela in alliance with AVE (Maracaibo, May 15; Caracas, October 3 and 30). In addition, CAF participated in a number of international forums, for example, the “Corporate Governance in Latin America Round Table, OECD and IFC”, emphasizing the discussion on best practices and recommendations aimed at institutional investors in the region (Mexico, December 2 and 3).

It should be highlighted that CAF is part of the Working Group on Development Financial Institutions (DFI) whose goal is to continue implementing the Joint Declaration on Corporate Governance signed in 2007 by 31 DFIs. In this regard, CAF organized the Third Annual Conference of Development Financial Institutions. The main objectives of this conference were to follow up on the adoption of the declaration by the signatory institutions, and explore ways to strengthen collaboration and share experiences.

International Insertion Program

As part of its support role to member countries in their internationalization processes, CAF has actively supported the countries' recent trade negotiations. The development of this program during 2008 enabled the financing of four research papers regarding trade agreements, especially on the likely impacts of the different negotiation scenarios of the Doha Round, as well as the negotiations between the Andean Community (CAN) and the European Union (EU). These papers analyze both the aspects associated with the negotiations, and the construction and measurement of the impact of different negotiation scenarios.

In addition, it is important to mention CAF's participation in the discussions held in the World Trade Organization (WTO) on the Negotiations of the Doha Round and the Aid for Trade Initiative, where regional and multilateral level meetings were conducted. In addition, jointly with the Economic Commission for Latin American and the Caribbean (ECLAC), experts discussed the results of the six working tables: trade facilitation, infrastructure, energy, innovation, information technology and communications, and social cohesion. A document was issued with specific proposals to promote cooperation at a regional level.

Through this program, CAF organized discussions on trade issues. One seminar should be specially highlighted, jointly organized with CONAPRI and the IDB to present its report on the effect of transportation costs on international trade flows in Latin America. Through this program, CAF also participated a forum on public policies dealing with trade, especially in the Regional Integration Network (RIN) related to the Latin American Economists' Association (LACEA), promoting the discussion between policy makers and academics regarding trade issues of interest.

CAF also participated in the Latin American Trade Network (LATN) where the social impacts of trade openness were discussed, as well as in the technical discussion networks held in Berlin at the annual international conference of ECOMOD, where a research paper prepared in the framework of this Program was presented.

Research Program

Through the Research Program, CAF helps researchers in the region both in the implementation and dissemination of their initiatives. CAF benefits from research on subjects of interest for its agenda, and participates in the debate regarding issues that are relevant to Latin American economic and social development. The resulting research documents are discussed in workshops organized throughout the year, and are used as inputs for the Economic and Development Report (RED) prepared annually, and some are published in the technical journal "Perspectives", edited by CAF.

On May 5 and 6, 2008, a seminar on Infrastructure and Development was held in Lima where a series of papers that had been commissioned for the 2009 Economic and Development Report were presented.

During the first half of 2008, the main conclusions and lessons of the 2008 Economic and Development Report: Opportunities in Latin America: toward a better social policy, were presented at seminars in Buenos Aires, La Paz, Bogota, Quito, Madrid, Washington, D.C., Lima, and Caracas.

Another instrument to support research is the public call issued annually to researchers in the region for research proposals related to topics of interest for CAF. In the seventh edition of this call, four work proposals were chosen, on the subject of decentralization and local development. These papers were aimed at examining the role of public decentralization in the efficient provision of different public goods, local tax collection and, in general, the efforts of local and regional governments to improve public management. These aspects are relevant to determine to what extent decentralization may be a factor that promotes regional development and a more balanced growth of the countries' living standards.

Of this group of papers, two were presented in a session on decentralization and local development organized by CAF during LACEA's XIII Annual Meeting, held in Rio de Janeiro on November, 2008, and organized by the Institute of Applied Mathematics (IMPA). In this forum, where CAF actively participated, the main researchers and academics of the region gather annually. In the 2008 edition, in addition to the panel on issues related to the call for papers, some topics of the 2009 Economic and Development Report: Roads to the future: Infrastructure Management in Latin America were presented.

Other seminars and research activities supported by CAF through the Research Support Program include: the meeting of the Economic Integration Network held in Santiago, Chile, on December 4 and 5. The conference organized by the Catholic University of Chile, and Latin American professors and researchers presented eight papers on topics related to international trade and integration. Another important event was co-organized by CAF and the Torcuato Di Tella University of Buenos Aires on December 9. The Seminar on Theoretical and Empirical Developments on Economic Growth in Latin America had, as a special guest, Robert Lucas, Nobel Prize in Economics, from the University of Chicago. CAF researchers participated actively presenting two research papers and acting as panellists in the final panel on growth policies.

Another research activity conducted by CAF during 2008 was the survey on access, quality, and perception of satisfaction with infrastructure services in Latin America, contracted to IPSOS Consultants. The survey was applied to a representative sample of households in 16 cities of the region, and the results were used as inputs for the 2009 RED on infrastructure and development.

In addition, to support the research tasks associated with the creation of the 2009 RED, a team was hired, led by Professor Eduardo Engel, of Yale University, an internationally renowned specialist in regulatory issues, to research the role of Public-Private Associations in the infrastructure area in Latin America.

8

Special report:

Roads to the future.

Infrastructure management in Latin America



Above: First-Class Ports Program, Paranagua Port, Brazil. / Below, left to right: Southern Inteooceanic Road Corridor, Peru; and Railroad System Ezequiel Zamora, Tuy Medio trench, Caracas, Venezuela.



Above: Road infrastructure development in the region. / Below, left to right: Electric infrastructure development and Integrated Water Program.

The fifth edition of the *Reporte de Economía y Desarrollo* (RED), entitled *Roads to the future. Infrastructure management in Latin America* seeks to contribute to the discussion of public policy options that enable advancements in the paths towards economic and social development in the region's countries. This special report contains a brief discussion of the main topics addressed in the publication.

The book's starting point is the idea that the material welfare of society rests on the possibilities of generating wealth and on the opportunities offered to its citizens to benefit from them. Both the conditions under which productive activity develops and those that determine the quality of life of the population are affected in a fundamental way by the condition of basic services such as roads, water, electricity, telecommunications, ports and airports for the entrance and exit of goods and people, mass transportation, public spaces integrated to the urban planning, and buildings for the supply of education and health services. Without pretending to offer a complete list of the sector's services, it is clear that the state of infrastructure in a society is crucial for its development. Furthermore, the peculiar characteristics of these services make them special to some extent and, therefore, susceptible to actions by the State.

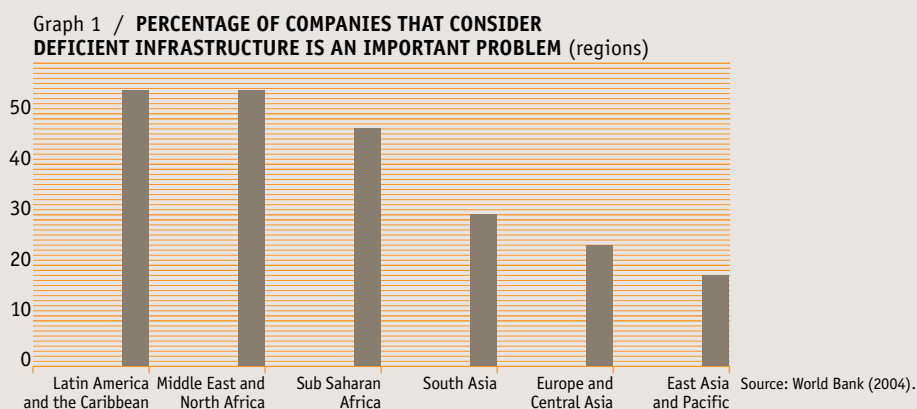
'Infrastructure' usually refers to a variety of durable goods that share some common characteristics. For example, its consumption by an individual does not exclude the possibility that someone else consumes it too, significant initial investment of resources is required to achieve efficiency (fixed costs), and its consumption by a larger number of individuals lowers the costs to others (networks). These characteristics make it difficult for market mechanisms to achieve an efficient supply of these services, be it because by excluding the possibility that several individuals may benefit at the same time from the services, a smaller amount than is adequate is offered, or because once the initial investment to offer the service is done, there are no incentives for other providers to participate, concentrating the provision of services in a monopoly that could restrict the quantity or quality of the services for its own benefit. In this context, improving the quality and quantity of infrastructure in a society is not only fundamental for prosperity and welfare, but also a significant challenge for public policies which must find an appropriate response in each case for the different expressions of these characteristics, which exhibit themselves in different ways depending on the context. This challenge has found space in the historical debates on development and is still very current today.

The purpose of this brief document is to summarize the main conclusions of CAF's *Reporte de Economía y Desarrollo* "Roads to the future. Infrastructure management in Latin America". The next section highlights the importance of infrastructure services in Latin America for their importance in providing greater dynamism to countries' productive systems and their effects on the social gaps. The third and last section describes the main messages of the book that seek to strengthen the impact evaluations in this area and improve management policies.

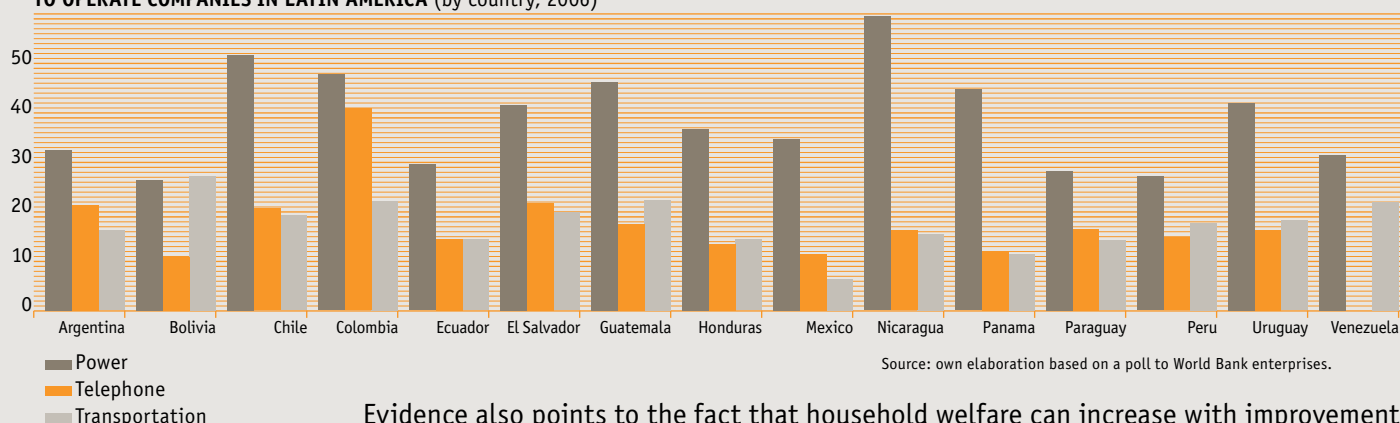
Diagnosis: the productive and social dimension of infrastructure in Latin America

Improving the current state of infrastructure is a priority in Latin America. After a long period of economic expansion, originally boosted by the export sector and later attributable to the dynamism of domestic demand, the region is showing signs of exhaustion in some of its infrastructure, which are starting to generate bottlenecks for countries' growth processes and for their trade with the rest of the world. For example, in Peru there has been an accelerated growth in energy demand that exceeds its generating capacity, leading to congestion of the electrical and natural gas transportation networks. Other countries of the region face similar bottlenecks that limit the sustainability of their economic growth.

In this line, but linked to international trade, is the case of the Buenaventura port in Colombia. In this port, international cargo has quadrupled in the last decade, leading to numerous difficulties among which are obstacles to mobilizing merchandise due to road congestion, problems related to servicing the increasing number of ships arriving to the port, as well as the impossibility of receiving last generation ships due to the lack of depth of the access canal. Thus, congestion and lack of adaptation of infrastructure constitute a threat to international competitiveness and have contributed to Latin America's loss of market share in global trade. This situation is reflected in business perception surveys, which suggest that the problems in the supply and quality of infrastructure are considered a fundamental obstacle for firms' growth and profits. As shown in Graph 1, almost 50 percent of Latin American firms consider infrastructure a serious obstacle for the development of their businesses. A disaggregated analysis by type of service and by country (see Graph 2) shows that, in general, the most serious problems are perceived in electrical energy services. For example, 60 percent of the firms in Nicaragua, and 50 percent in Chile and Colombia, indicate that this service represents a serious or very serious obstacle for the operation of their businesses. There seem to be less problems in the areas of telephony and transportation, although in the case of Colombia, for example, almost 40 percent of surveyed firms recognize a serious problem in the first service, while in Bolivia, Guatemala, and Venezuela, problems in the transport services seriously affect almost one fifth of firms analyzed (World Bank, 2006).



Graph 2 / **SERIOUS OR VERY SERIOUS OBSTACLES TO OPERATE COMPANIES IN LATIN AMERICA** (by country, 2006)



Evidence also points to the fact that household welfare can increase with improvements in infrastructure that satisfies basic needs. In this sense, the evidence highlights the importance of infrastructure in helping reduce the social gaps that characterize Latin American countries. The opportunities for economic and social progress are still limited for most inhabitants of the region. This helps to explain both the persistence of high levels of poverty in some countries, and the fact that income distribution in the region continues to be the most unequal in the world. Among the public policies aimed at achieving greater social mobility, especially in the less favored segments of the population, we find better access to basic infrastructure services such as water, sanitation, energy, and roads (CAF, 2007). In fact, road infrastructure reduces the time of transportation to educational centers, work opportunities, health centers, and recreational facilities, among others, increasing the amount of time available for family, leisure, sports, and other important activities. Electrical infrastructure allows lighting for households, access to information, and the possibility of heating water, among other uses. Access to clean water facilitates the improvement of health conditions for the family. Gas infrastructure lowers the cost of cooking and of heating homes, among other uses.

The improvements in access to these services in the region have not benefited different income groups to the same extent. As shown in Table 1, the poorest families have less access to basic goods and services such as water in their homes (75 percent among the poorest compared with 92 percent in higher income families), and public sewage (35 percent for the poorest and 77 percent for the richest quintile). Thus, a key aspect of policies of infrastructure services is to ensure access for the less favored segments of the population.

Table 1 / **PERCENTAGE OF HOUSEHOLDS WITH ACCESS TO BASIC INFRASTRUCTURE SERVICES, BY QUINTIL OF PER CAPITA FAMILY INCOME IN LATIN AMERICA (2001-2005)**

Service	Per capita family income quintil					Average
	1 (smaller)	2	3	4	5 (larger)	
Access to water within the property	77	83	87	90	94	87
Access to public sewage	36	45	55	65	78	58
WC connected to sewage or septic	45	54	64	74	84	66
Access to electricity	86	90	93	95	98	93
Fixed telephone line	25	34	44	58	75	49

Source: own elaboration based on data from CEDLAS (2007).

There are other social issues where infrastructure plays a decisive role. Several countries in the region have critical levels of urban precariousness, defined as a set of deficient habitat characteristics, especially with respect to home ownership and its features, such as adequate access to basic services including safe drinking water, sanitation, and electricity. For example, according to ECLAC data, 45 percent of the urban population in Nicaragua lives in slums (approximately 2.5 million people). At the same time, although 27 percent of the urban population of Brazil lives in precarious conditions of habitability, this situation affects close to 52 million people.

Latin American cities have improved their access to water, with coverage that oscillates between 80 percent and 96 percent. However, the levels of access of the urban population in other dimensions of urban quality of life show a very different reality. For example, regarding access to sanitation, coverage is between 50 percent and 60 percent in Brazil and Bolivia. Nevertheless, national figures hide significant regional asymmetries. For example, for the year 2000, in the Brazilian city of Rondonópolis, the total urban population with access to sanitation was only 28 percent (ECLAC, 2008). The estimates of unsatisfied basic needs also show large deficiencies regarding sewage systems. As shown in Table 2, in 13 of the 17 countries of Latin America, more than 30 percent of the population has no connection to the public sewage system.

Table 2 / **PERCENTAGE OF THE POPULATION WITH INADEQUATE SYSTEMS OF EXCREMENT ELIMINATION FOR LATIN AMERICAN COUNTRIES (2002)**

0% - 4.9%	5% - 9.9%	10% - 19.9%	20% - 29.9%	30% - 39.9%	40% - 100%
Argentina		Chile	Mexico	Costa Rica	Bolivia
		Colombia		Ecuador	Brazil
				Uruguay	El Salvador
				Venezuela, RB	Guatemala
					Honduras
					Nicaragua
					Paraguay
					Peru
					Dominican Rep.

Source: own elaboration based on data from Calderón and Servén (2007).

This situation clearly justifies that overcoming urban precariousness be included in the Millennium Development Goals (MDG), which incorporate specific objectives regarding minimal conditions for habitability: access to safe drinking water, sanitation, electricity, quality of housing materials, and security of tenure¹. According to the regional urban agenda developed by ECLAC, the provision of and access to infrastructure basic services is one of key public policy interventions. This refers to the need to supply services, especially safe drinking water and sanitation, to the areas where the most vulnerable households are located.

There are also increasing asymmetries between the different regions within countries. The lack of connectivity and deficiencies in the provision of public services can exacerbate the isolation of certain geographical areas while, at the same time, leading to more social con-

¹ The subject of urban precariousness, and specifically blight areas, is addressed in the Millennium Development Goals (MDG). In fact, Goal number 10 states "Reduce by one half, by the year 2015, the percentage of people that lack sustainable access to water"; Goal number 11 states "Considerably improve, by the year 2020, the lives of at least 100 million people who live in blighted areas".

licts and governance problems. These increasing territorial gaps are reflected in different social indicators, including access to basic services, especially between urban and rural areas. For example, only 70 percent of the rural population (average weighted by the population for the region's total) have access to basic services —such as having water on the premises—, in comparison to coverage of over 90 percent in the cities.

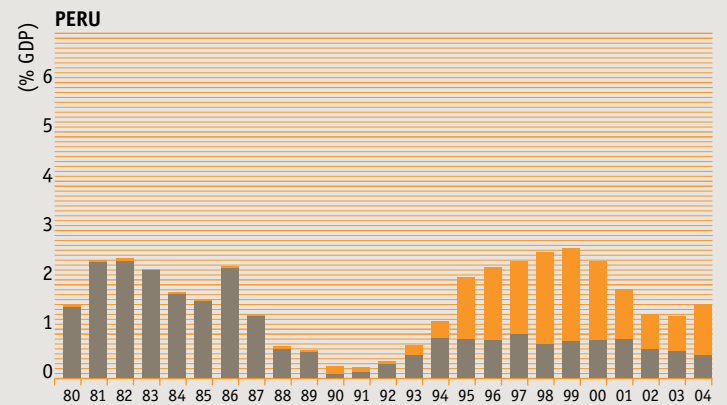
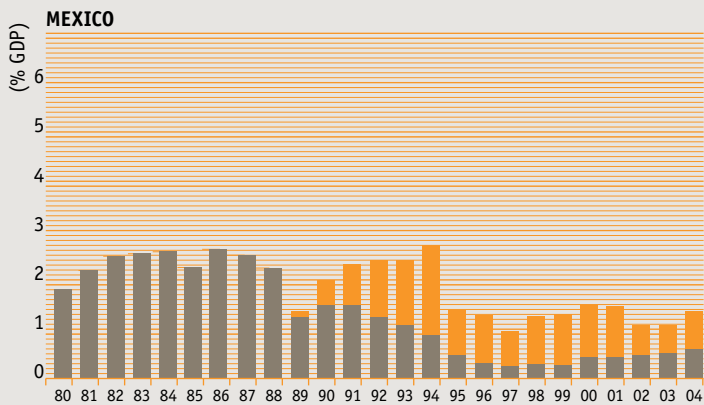
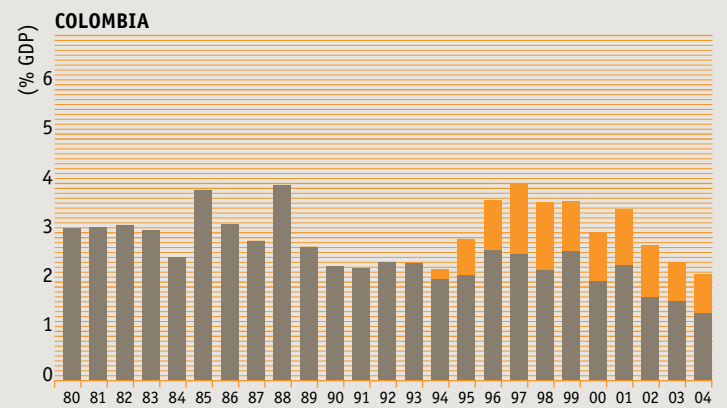
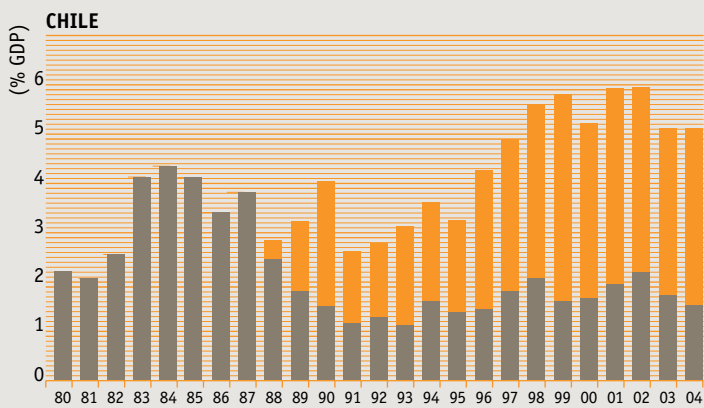
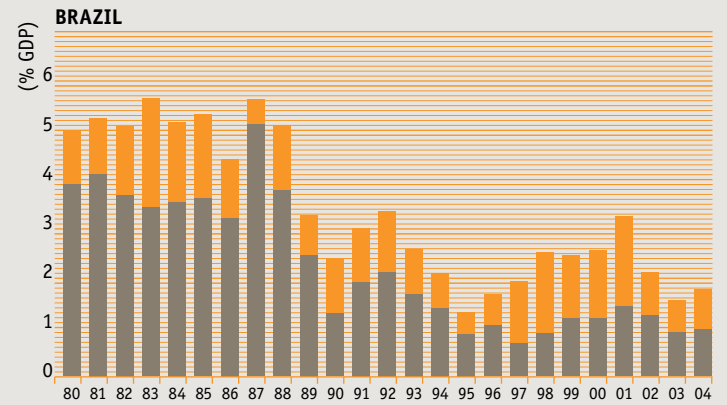
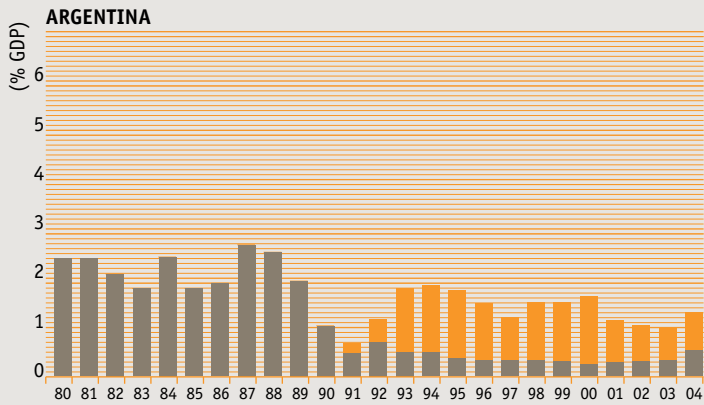
In addition to recognizing that the deficiencies in the quality and quantity of infrastructure represent an important economic and social problem, the diagnosis for the region requires a look at the mechanisms and institutions created to supply them and which, in one way or another, show a less than acceptable performance. The information available on public and private investment (see Graph 3) suggests that in the last 15 years private participation in the supply of such services has increased. Still, this increase in private investment has not compensated for the reduction in public investment, so that total investment has decreased in an important number of countries in the region. This reduction in investment explains, in part, the congestion and failures observed in several services, including those operated privately, as well as the problems of quality and access that low income households have been exposed to. In this context, opinion poll results that show a negative perception with respect to private participation in the delivery of infrastructure are not surprising. This suggests that governments should improve the management of these services both when the services are provided directly by the public sector, as well when they are provided with private sector participation.

Lessons: improve project impact assessments and management policies

Two fundamental messages emerge from the analysis developed throughout the report. In the first place, it is vitally important that the impacts of the different interventions on infrastructure be measured systematically and using high technical standards. This is the best way to inform, in a precise manner, the decision making process on the priorities of public resource allocations to different activities and projects. In the second place, the challenge of improving both the quality and the quantity of infrastructure in the region requires an adequate combination of incentives for private participation, regulatory frameworks and planning instances, and territorial and sectoral coordination. This type of management scheme allows for the best system of provision and maintenance system to be chosen for each infrastructure project according to its particular needs, with the best prospects of providing high quality services in a sustainable way.

Interventions in infrastructure are essentially of three types: in first place, the supply of new infrastructure; in second place, the maintenance of existing infrastructure; and in third place, policies aimed at managing its use. It is necessary to think about infrastructure policies as a portfolio of initiatives in each of these spheres, and emphasize the fact that each one has potentially significant effects. In addition to considering the impact of each policy in the make up of the intervention portfolio, the cost of each must be taken into consideration. In this respect, it is important to point out that in the region maintenance or creative administration efforts for the use of infrastructure are frequently low priority options, in spite of clearly having lower relative cost and important complementarities with

Graph 3 / **INFRASTRUCTURE INVESTMENT FROM THE PUBLIC AND PRIVATE SECTORS FOR SELECTED COUNTRIES IN LATIN AMERICA (1980-2004)**



Source: own elaboration based on data from Calderón and Servén (2008).

Public
Private

the installation of new infrastructure. It is also necessary to recognize that, although ideally the intervention portfolio should have an adequate cost-benefit balance for each type of intervention, the reality of decision making is complex and affected by pressures from diverse interest groups. The definition of an adequate interventions portfolio for infrastructure should take into consideration this specific reality so as to align the incentives of participants in the direction of the objectives being sought.

Several countries of the region consider infrastructure as a priority in the public policy agenda. For example, the Plan to Accelerate Growth –backbone of the productive development policies in Brazil–, which contemplates infrastructure projects in the energy, transportation, and sanitation sectors, as well as the development of airports and railroads, entails expenditures of approximately 20 percent of GDP between 2007 and 2010. Smaller countries also show this emphasis, as for example the case of Bolivia, where investment in infrastructure represents 50 percent of total public investment, and where the National Development Plan includes as critical elements investments in water projects and basic sanitation, as well as in transportation and telecommunications infrastructure. Nevertheless, these indicators of fiscal priority refer to investment in new infrastructure which, as has been mentioned above, is only one of the three dimensions of an infrastructure policies portfolio. Efforts must also be made in maintenance plans for existing infrastructure, and in programs to manage their use so as to reduce congestion problems.

The first part of the report deals in detail with the topic of the impact of infrastructure on household welfare, productivity and international trade, and the environment. The analysis shows the need to advance toward a better comprehension of the channels through which infrastructure affects the welfare of citizens, that is, to what extent these impacts materialize through direct effects on the quality of life for households, the productivity of firms and industries, and participation in international trade. The effects on the environment have a critical role in impact analysis. Important questions are addressed, such as, “To what extent is there a trade-off between development generated by infrastructure and the environment?” “What kinds of policies and regulations on infrastructure can improve this trade-off by minimizing negative effects on the environment?” or, “What types of infrastructure investments have positive effects on the environment?”

Understanding these impacts is an important element for improving evaluation methodologies for infrastructure investments, thus strengthening the efficiency of public expenditures. In addition, this type of analysis enables the refinement of the relative policy debate. Governments need arguments and evidence to prioritize the development of certain infrastructure initiatives with respect to alternative uses of resources, so as to maximize the benefits of these investments. As more information becomes available to make these decisions, one reduces the probability that policies be decided based on criteria less tied to social benefits.

The second part of the book concentrates on the identification of management practices that improve the effectiveness of the supply of infrastructure. In first place, there is a

description of the reasons that justify the traditional presence of the State in the supply and regulation of infrastructure, as well as of reasons behind the increase in private participation. In both cases, regional experience is reviewed; this is followed by a discussion of issues of redistributive policies in infrastructure services; after that, there is detailed analysis of the key elements to achieve truly successful partnerships between the public and the private sectors for the provision of infrastructure; finally, there is a study of the institutional elements that influence all the spheres of infrastructure service provision, which constitutes a central part of the diagnosis and recommendations for action.

As mentioned earlier, in the last two decades there has been an important increase in private participation in the financing and operation of infrastructure projects in Latin America. Private participation in the management of services can improve the efficiency of provision (be it construction, maintenance, or operation), not only because investments may be financed by charging users –which rationalizes the use of infrastructure–, but also because in certain private participation schemes incentives are incorporated for its maintenance, a traditionally deficient element in standard public works contracts. Nevertheless, these and other efficiency gains are not guaranteed: much depends on the regulatory and institutional framework.

The technological characteristics of infrastructure services (size and maturity periods of investment, economies of scale and scope, and network effects of services, among others) also imply serious challenges that include the organization of the market into different segments with greater or lesser degrees of competition (vertical and horizontal separation of operations), regulations regarding price setting and adjustments (for final users as well as for the use of networks by producers or generators), and quality parameters for services.

A conclusion that arises from the analysis is that to take advantage of the benefits of private participation, which addresses a spectrum of options much wider than the simple sale of assets, the public sector must be capable of not only investing and managing the infrastructure that is less susceptible of being managed by the private sector (for example a low traffic road network), but also planning, evaluating, regulating, and supervising infrastructure investments even when the main executing agency and service operator is the private sector.

To achieve these capabilities in the public sector, an institutional framework is required that will support the strengthening of its roles as coordinator, supplier, and regulator. In particular, it must be decided whether it is convenient to delegate some of these State functions to different agencies; for example, assigning the regulatory and supervisory tasks to more or less independent agencies, while maintaining the role of direct supplier. This is the direction being taken both by the region and the rest of the world, but there is an interesting variety in proposed schemes, and each one has advantages and disadvantages that must be understood and taken into consideration when the time comes to propose specific institutional arrangements in each country.



From top to bottom:
38th Assembly of the Organization of American States (OAS), Medellin, Colombia, June 1-3.

V Summit of Chiefs of State and Governments of Latin America, the Caribbean and the European Union, Lima, Peru, May 16.

First Latin American Summit. Salvador de Bahia, Brazil, December 17.

Unasur Extraordinary Summit. Salvador de Bahia, Brazil, December 16.

XXXV Summit of Mercosur Presidents. San Miguel de Tucuman, Argentina, July 1.

CAF'S PRESENCE IN THE MAIN REGIONAL MEETINGS

During the past year, CAF reaffirmed its commitment to consolidate the ongoing regional integration processes and decisively contributed to the strengthening of recent integration initiatives. Through the definition and implementation of working programs with various organizations and forums, the Institution played an important role supporting the integration and consensus agendas at the sub-regional, regional, and hemispheric levels.

The presence of CAF's executive president, Enrique García, in the main regional meetings has enhanced the Institution's active participation in the consolidation of priority projects in the agendas of its shareholder countries. During 2008, CAF promoted specific actions mainly in the areas of physical infrastructure integration and energy markets, financial integration and cooperation, productive diversification and integration, and strengthening of MSMEs, while supporting specific regional projects to reduce asymmetries and promote social, educational, and cultural development as well as diverse frontier integration programs.

It is worth noting that CAF actively and permanently participated in the Joint Working Group for the Summits of the Americas and in the framework of the General Assembly of the Organization of American States in Medellín, Colombia; the working meetings and the Andean Community Presidential Summit (CAN) in Guayaquil, Ecuador; the MERCOSUR Chiefs of State Summit in Tucuman, Argentina and Salvador de Bahia, Brazil; the Latin American-European Union Summit in Lima, Peru; the Ministerial meetings of the Arco countries Forum in Cancun, Mexico and Santiago de Chile; the Mesoamerican Initiative Summit in Tabasco, Mexico; the different working groups and founding meetings of the Union of South American Nations (UNASUR) in Salvador de Bahia, Brazil; the Ministers of Foreign relations and Foreign Trade Summit Roads to Prosperity in the Americas in Panama City; and the Latin American Summit on Integration and Development in Salvador de Bahia, Brazil.

From a multi-dimensional, comprehensive, and convergence perspective, CAF developed and deepened the work and cooperation programs agreed with different regional integration organizations and secretariats, including ongoing projects with the following organizations: the OAS, the General Secretariat of CAN, the Andean Parliament, the Andean Health Organization Hipolito Unanue Agreement, the MERCOSUR permanent Representatives Commission, the Consultative Forum Municipalities, Federal States, Provinces, and Departments of MERCOSUR, the Pro-Tempore Secretariats of the Summit of the Americas, of MERCOSUR, UNASUR, the Arco countries Forum and the Mesoamerican Project, the ALADI, the Amazon Cooperation Treaty, and the Association of Caribbean States.

SEMINARS AND EVENTS

The organization of seminars, forums, and other events is aimed at positioning CAF in the regional and international political, economic, financial, social, and cultural environments. In this line of action, the Institution organized and participated in the following events:

Conference: Political and Economic Challenges in the Region

Within the framework of the annual meeting of IDB Governors, this conference has become the most important and prestigious parallel event. Outstanding panellists and an audience of key international bankers and investors participated. Miami, United States, April 4-8.

Andean Investment Forum

Organized by CAF in Buenos Aires, Sao Paulo, and Lima, together with Latin Finance. Regional and international public attended, including institutional and private investors and high level representatives of the corporate and financial sectors.

XII Annual Conference on Trade and Investment

Organized every year in a joint effort with the Inter-American Dialogue and the OAS, it has become an important platform for discussion and analysis with political, academic, and third sector actors regarding economic and trade relations, and bilateral and multi-lateral policies between the United States and Latin America. Washington, D.C., United States, September 10 and 11.

Institute of the Americas: A Hemispheric Alliance

Aimed at strengthening CAF's presence in regional and global issues of interest through an active presence in the activities and events organized by the Institute. The alliance has enabled the Institution's participation in the Managing Group of the Energy Sector, as well as sponsoring public employees of the region to participate in workshops on poverty, energy, environment, and food security. November 14.

Pacific Council for International Policy

Dialogue between leaders of the civil society, academic world, business, government, and media environment from the United States and Latin America to discuss key issues in the region. Los Angeles, United States, February 6.

Ninth Edition of the Biarritz Forum

The ninth edition of this forum was entitled 'Europe-Latin America Relations and the New European Institutions'. This forum has become a valuable scenario for European and Latin American leaders to come together, as well as to exchange ideas and reflect about the important challenges faced by the two regions. Biarritz, France, November 3 and 4.

2008 Asia-Latin America Business Forum

The Singapore Ministry of Industry and Trade, together with the International Enterprise Singapore, organized the 2008 Asia-Latin America Business Forum. On this occasion, the

central theme of the event was infrastructure for development. The forum has contributed to the promotion of integration and commercial and investment ties between government and business leaders in Asia and America. Singapore, September 22 and 23.

Hemispheric Mayor's Forum

The third Hemispheric Mayor's Forum was held with the participation of more than three hundred mayors of the region. Enrique Garcia, CAF's executive president, participated as key note speaker in this event which promoted the exchange of ideas on successful models to combat poverty, as well as experiences in the preservation of the environment. Miami, United States, June 19 and 20.

Forum of the National Planning Department of Colombia

To celebrate the 50th year of the National Planning Department of Colombia (DNP, in Spanish), CAF, together with the IDB and the World Bank, participated in the forum 'The Role of Planning in Colombia'. On this occasion, the role of the multilateral banking system regarding planning was highlighted, as well as CAF's commitment to promote sustainable development in Latin America and the Caribbean. Bogota, D.C., Colombia, September 9.

V Seminar CAF- Ibero-American New Journalism Foundation

Fifteen activities were conducted under this program, with the participation of 487 journalists, editors and media directors of the United States, Europe and Latin America. Worth mentioning are the XIV Foro Eurolatinoamericano de Comunicacion (El Salvador); the VI Journalism Meeting CAF-Grupo Diarios de America (United States) and the VI Seminar CAF-FNPI about journalism quality: social responsibility in the media (Mexico).



The president of CAF participated as key note speaker in the 2008 Asia-Latin America Business Forum held in Singapore on September 22 and 23.

DISSEMINATION OF KNOWLEDGE

CAF's publications support the execution of its Comprehensive Development Agenda for the region. The following titles were published during 2008.



2009 Economic and Development Report: Roads for the future. Infrastructure management in Latin America

The fifth edition of the Economic and Development Report reflects on the quality and quantity of infrastructure in Latin America. On one hand, it argues that decision making regarding the allocation of public resources must be increasingly based on knowledge, which translates into an increasing need for rigorously evaluating intervention initiatives.

On the other hand, it emphasizes the importance of strengthening the institutional capacities of the public sector for an effective provision of infrastructure services, which translates not only into regulatory improvements, but also the existence of investment planning instances for the medium and long term and highly trained organs for contracting with the private sector, who is an important partner in the provision of infrastructure services in the region.

ISSN: 980-6810-01-5

Published: March 2009

N° of pages: 260

(See pages 159 to 169 of this Annual Report for an overview of this publication).



Toward hemispheric energy integration: challenges and opportunities

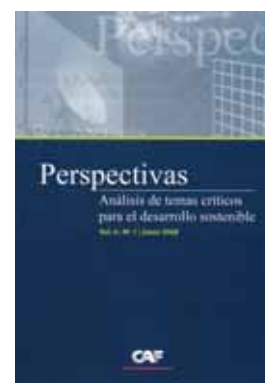
Presents an analysis of hydrocarbon reserves of the Andean countries, the increasing North American energy gap, and the possibilities for hemispheric integration in this sector. The book outlines the dual challenge faced by the Andean countries in taking advantage of the current energy situation, on the one hand, to expand production and supply the rest of the continent and, on the other hand, to make this activity the basis of a sustainable development strategy that will maximize value along the energy production chains.

ISBN: 978-980-6810-34-1

Published: March 2008

N° of pages: 308

Coedited with the IDB



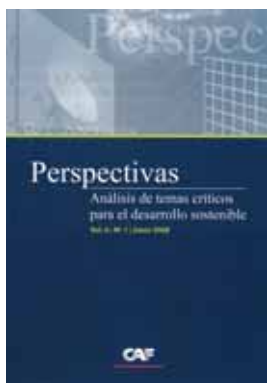
Perspectives. Analysis of critical issues for sustainable development. Vol. 6 N° 1

Provides an advance view of some of the topics of the 2009 Economic and Development Report, which addresses the role of infrastructure in the sustainable development of the countries of the region. The research includes the impact of investment in infrastructure as a platform for productive transformation, the role of infrastructure in Argentina, and of transportation costs in the performance of exports in the different regions of that country, and the tariff policies used in the supply of infrastructure services in Argentina and Colombia.

ISBN: 978-980-6810-36-5

Published: June 2008

N° of pages: 122



Perspectives. Analysis of critical issues for sustainable development. Vol. 6 N° 2

Presents another study that will be included in the 2009 Economic and Development Report. This one deals with the role of infrastructure and its impact on the sustainable development of the countries of the region. Two of its documents examine the impacts on the welfare of households in two specific cases of interventions on infrastructure (Solidarity Networks Program in Argentina and Rural Roads Program in Peru). A third document examines the impact of a road infrastructure on productivity in Colombia, and finally, it reviews the incentives to optimize the environmental impacts of infrastructure projects.

ISBN: 978-980-6810-36-5

Published: December 2008

N° of pages: 104



Information and Communication Technologies (ICT) Series

This series gathers CAF's initiatives through its Competitiveness Program (PAC) to support business access to Information and Communication Technologies (ICT) and its integration to the productive process to remove obstacles and seek opportunities for regional and global electronic trade. The series is comprised of seven titles:

Information technologies at the service of competitiveness. Volume 1.

N° of pages: 49

Management technologies uploaded in the Net.

N° of pages: 35

Innovations *Made in Colombia*.

N° of pages: 46

Communities connected with progress.

N° of pages: 66

A world that favours the non traditional exporter.

N° of pages: 67

State-enterprise relationship enters the information age.

N° of pages: 48 and 115

Technology for integration.

N° of pages: 115

ISBN: 978-980-6810-36-5

Published: June 2008



Microscope 2008 on the Business Environment for Microfinance in Latin America and the Caribbean

This issue presents an analysis and the results of the dynamic and weighted model of the environment for microfinance prepared by *The Economist Intelligence Unit* (EIU). The report registers the strengths and weaknesses of this industry using a specially created index, including countries such as Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

ISBN: 978-980-6810-36-5

Published: October 2008

N° of pages: 66

Coedited with the IDB



Latin America: governance under threat

This publication contains the most important documents of the sixth edition of the Biarritz Forum, the main instance for open political dialogue between European and Latin American leaders. The publication contains reflections on the progress made by the European Constitution, the evolution of the Latin American integration, as well as on a development model for Latin America.

ISBN: 978-99954-180-0

Published: October 2008

N° of pages: 174



Basic and environmental sanitation in Latin America

Collects the best academic papers presented during the Latin American Conference on Sanitation, Latisan 2007, held in Cali, Colombia. During the conference the different themes of interest for the region in the area of sanitation were addressed, enabling an evaluation of the strengths and weaknesses shown for the achievement of the Millennium Development Goals (MDG). The subjects included: management of domestic residual waters, sanitary education, hygiene and management of excretions, management of basic and environmental sanitation services, integral management of solid wastes, and control and prevention of contamination of water resources.

ISBN: 978-958-44-3433-3

Published: August 2007

N° of pages: 578



Series on development of mathematical thinking

The series is part of a formative proposal of the International Federation Fe y Alegria, to support an educational project where teachers may generate social change and transformation. The series, sponsored by CAF and UNESCO, developed within the framework of the Latin American Project of Popular Educators, is comprised of 20 volumes. The issue on 'The mathematical function' was edited in 2008.

ISBN: 978-980-7119-06-1

Published: January 2008

N° of pages: 32



Diagnosis and current situation of protected areas in Latin America and the Caribbean

Compiles the evaluation of progress in the management of the National Systems of Protected Areas in the region, where in the last decade the threats to the integrity of these areas have intensified. In addition, it includes the presentations and reflections of the countries that are members of the Latin American Network of National Parks and other Protected Areas (REDPARQUES) and the institutional members of the International Union for the Conservation of Nature (IUCN) in the II Latin American Congress of National Parks and other Protected Areas, held in San Carlos de Bariloche, Argentina, between September 30 and October 6, 2007.

ISBN: 978-980-6810-38-9

Published: October 2008

N° of pages: 122



Investment strategies and financial tools for local development

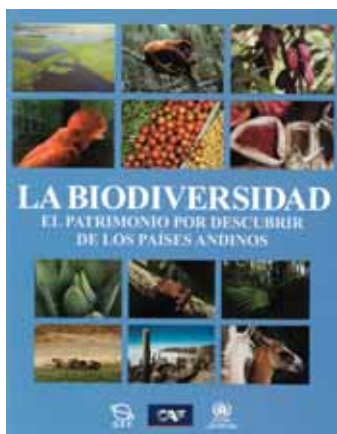
Offers a comprehensive study of the financial instruments and investment strategies in OECD member and non-member countries. Highlights effective tools, explores the roles and responsibilities of governments, public agencies and intergovernment institutions, in order to achieve better utilization of assets to generate private co-investment.

ISBN: 978-980-6810-37-2

Published: August 2008

N° of pages: 224

Coedited with OECD



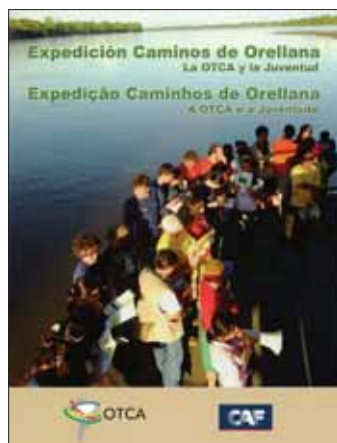
Biodiversity. A heritage to discover in the Andean countries

Presents a summary of the consultant reports developed in the CAF-GEF-PNUMA Project 'Facilitation of financing for businesses based on biodiversity and support of market development activities in the Andean region'. Its objective is to identify the environment that influences the advancement of biocommerce and to articulate proposals and recommendations to encourage activities that support its development.

ISBN: 978-980-6810-35-8

Published: August 2008

Nº of pages: 168



Expedition the path to Orellana

Gathers the experience of 45 youths from the region in their six thousand kilometre journey down the course of the Amazon River. The book brings together excellent photographic material of the route, as well as extracts from the participants' logbook. The trip allowed the young people to deepen their environmental conscience and their knowledge about the Amazon, and enabled them to become forerunners of the need to preserve and encourage sustainable development in one of the richest natural areas of the region.

ISBN: 978-9978-87-306-9

Published: October 2008

Nº of pages: 138

Available in Spanish, French, English, and Portuguese

Coedited with OTCA



Regional workshop. Conserving environmental services for the people and nature

Presents the discussions and conclusions of the Andean Regional Workshop held in Santa Cruz, Bolivia, on March 26 and 27 of 2007, which enabled the analysis of progress made on this subject in the region. During the sessions, participants made important contributions to the debate on public policies dealing with environmental services, and identified the main barriers and lessons learned at the local, municipal, and national level.

Published: January 2008

Nº of pages: 234



Where is journalism going? The masters respond

Gathers the proposals of the masters of journalism Jon Lee Anderson, Joaquín Estefanía, Jean François Fogel, Alma Guillermoprieto, Javier Darío Restrepo, Daniel Santoro, Tomás Eloy Martínez, Carlos Monsiváis, Sergio Muñoz, and Sergio Ramírez, who were invited to respond to the question: "Where is journalism going?" on the celebration of the tenth anniversary of *Fundación Nuevo Periodismo Iberoamericano* (New Iberoamerican Journalism Foundation) in 2005.

ISBN: 980-12-0876-7

Published: August 2008

Nº of pages: 132



CAF's Head Office. Caracas, Venezuela.

INTERNAL ORGANIZATIONAL MANAGEMENT

Regarding organizational adjustments, the following are worth mentioning during 2008: opening of CAF's office in Argentina; adoption of the administrative steps for opening a regional office in Panama; and progress achieved for the establishment of an office in Uruguay. In addition, the organizational structure of the offices in the region was strengthened, the Social Development Vice President was appointed, the Infrastructure Vice-presidency was strengthened, and the comprehensive risk management administration process was reviewed.

In terms of internal controls, the Institution conducted the tests required to maintain the certification of the Committee of Sponsoring Organizations (COSO).

In the area of human capital management, CAF implemented actions that consolidated corporate processes, including: improvement and updating of the compensation system; supporting the first regional salary survey in multinational and financial organizations; updating the performance evaluation model and its relationship with an incentive scheme based on merit salary increases; adjustment and updating of terms of reference resulting from personnel re-assignments; increasing the availability of courses through CAF Virtual Learning Platform (UV-CAF); and signing new agreements. In addition, the Institution implemented the second phase of the Youths in Development Program (PRODES), and increased the diversity of nationalities of new executives.

Regarding information technology, the Institution began implementing a management strategy for the Operations and Technology Office, leading to a new governance scheme for information technology and operations, and the consolidation of projects in those areas. In addition, it continued the program to update obsolete applications; the new Data Center became operational, and automatized the following processes: negotiations, management of depositories and market risk for the Treasury Division; electronic banking reconciliation; prevention of money laundering; case management for the Legal Department; corporate budget and project implementation scenarios. At the same time, the Institution strengthened the technological platform to support the Business Continuity Plan (PCCN), and the Disaster Recovery Plan (PRD).

Regarding information technology, CAF conducted the tests corresponding to the critical support processes in the framework of the Business Continuity Corporate Program (PCCN), the Disaster Recovery Plan (PRD), the alternate data contingency center, and the Institutional Crisis Management Program (PMCI). Results indicate that a significant degree of maturity has been achieved.

With respect to activities related to the construction of the new headquarters in Venezuela, the Institution concluded the demolition of the building located on the new construction site, and conducted an international contest for the development of the architectural concept.

10

**Management's discussion and
analysis of financial condition**

In 2008 CAF was reaffirmed as the most important source of multilateral financing for its member countries as shown by record levels of approvals (USD 7.9 billion) and disbursements (USD 5.3 billion) achieved in that year, mainly aimed toward medium and long-term project financing.

CAF received USD 206 million in new capital contributions from its shareholders in 2008. From this total, USD 199 million were contributions received from non-core countries, which underscores the growing importance of these shareholders in CAF's capital structure as well as their unquestionable role in the transition from a mainly Andean-focused lending institution to a multilateral bank with a scope covering most of Latin America and the Caribbean.

Net profits reached USD 311 million in 2008, which represents a USD 90 million decrease when compared to 2007, mainly as a result of the general decline in international interest rates¹ derived from the global financial crisis. However, it is important to mention that the main profitability ratio, Return on Average Equity (ROE), was 7.20%, well above CAF's traditional benchmarks such as the US 6-month LIBOR and returns for the 10-year US Treasury Bonds (3.10% and 3.64%, on average, respectively).

Bond issues in the international markets amounted to USD 631 million in 2008. Local capital markets activity during that year included two local-currency issues in the Colombian market for a total of USD 110 million, as well as an issue in Mexican Pesos for approximately USD 76 million. Worth noting is CAF's first bond issue in the exclusive Swiss market, to which only highly-rated issuers have access. The placement was for 200 million Swiss francs (approximately USD 194 million) with a five-year tenor. Within its funding strategy, CAF also tapped more traditional markets that year, issuing USD 250 million in Yankee bonds, a market where CAF has seen increase its investor base, through the re-opening of its 2017 dollar-denominated bond. In addition, the Corporation maintained an important presence in the short-term markets through the use of its commercial paper programs in the US and European markets, in addition to its Spanish short-term notes program.

During 2008, amid a financial environment that became increasingly difficult towards the end of the year, rating agencies recognized once again CAF's superb credit quality and franchise value in the region by ratifying CAF's credit ratings, for both its short and long-term debt issues. (Table 1)

Table 1 / CREDIT RATINGS

	Long term	Short term
Fitch Ratings	A+	F1
Japan Credit Rating Agency	AA-	—
Moody's Investors Service	A1	P-1
Standard & Poor's*	A+	A-1

* Negative outlook.

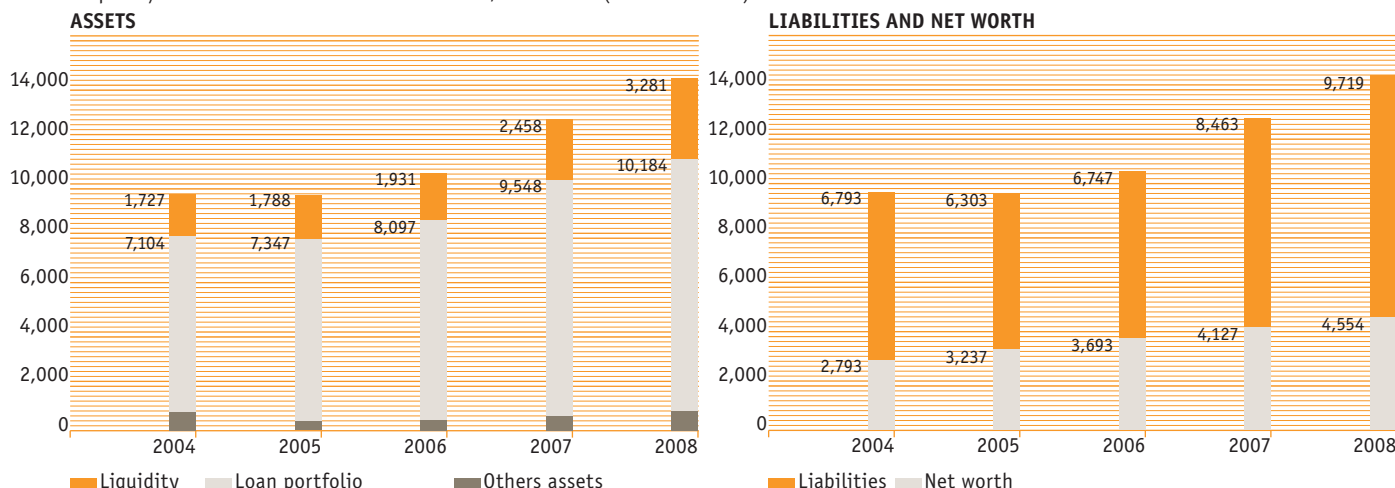
These decisions reaffirm CAF's condition as the best rated frequent issuer in Latin America and are based on the strength and stability of its operating results, its prudent lending policies, the independence with which it manages its business, and the continuous support of its shareholder countries.

¹ The average 6-month USD Libor interest rate fell from 5.29% in 2007 to 3.10% in 2008.

SUMMARY OF FINANCIAL STATEMENTS

During 2008, earning assets –liquidity and loan portfolio– grew at a rate slightly over 12%. At December 31 2008, total assets were USD 14.3 billion, 13% higher than at the end of 2007 (Graph 1). This was mostly due to an increase in the loan and liquid assets portfolios. Outstanding loans reached USD 10.2 billion, a 7% increase over 2007. The other major component of assets, liquidity, totaled USD 3.3 billion, which was 23% of total assets and 35% of total borrowings.

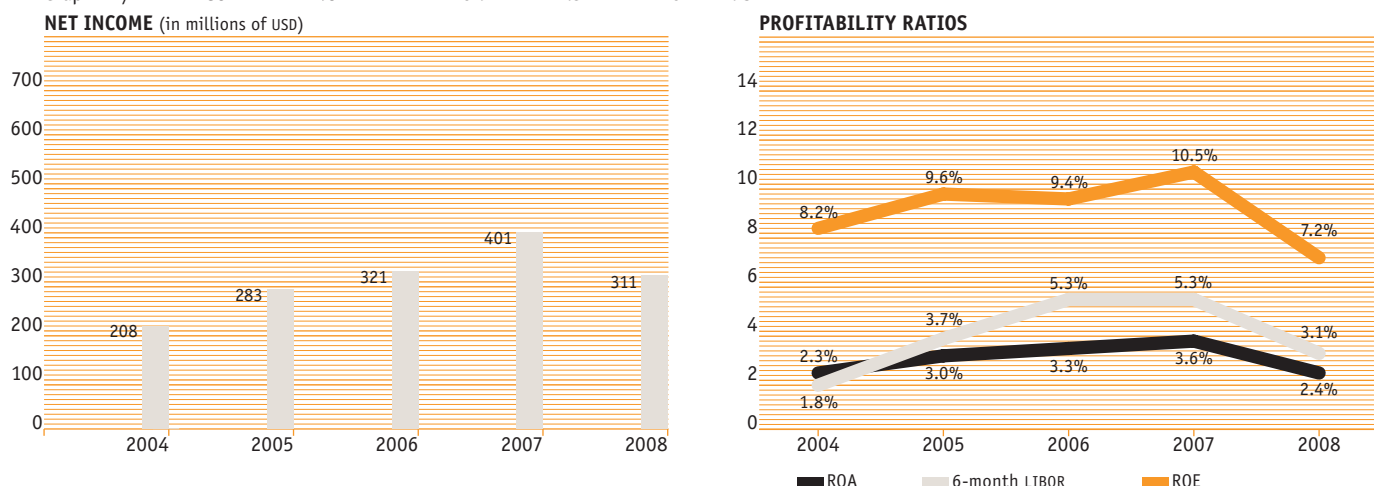
Graph 1 / **BALANCE SHEET AS OF DECEMBER 31, EACH YEAR** (in millions of USD)



Shareholders’ equity was USD 4.6 billion at the end of 2008 and retained earnings reached USD 311 million. Shareholders’ equity represented 32% of total assets and 38% of risk-weighted assets, according to Basel II Accord standards, as of 31 December 2008. Net income for 2008 reached USD 311 million and was primarily a result of the increase in the lending portfolio. Nonetheless, this outcome was less than the observed in 2008 due to a reduction in financial income derived from the decrease in international interest rates.

Return on Equity (ROE) for the year decreased to 7.2% for 2008 (from 10.5% in 2007), but still compared very favourably with the established benchmark of six-month Libor (Graph 2), while the Return on Assets for this period was 2.4%.

Graph 2 / **NET INCOME AND PROFITABILITY** FOR THE YEARS ENDED DECEMBER 31



LOAN PORTFOLIO

The loan portfolio was USD 10.2 billion at the end of 2008, 7% higher than the level reached in 2007 (USD 9.5 billion).

The distribution of the loan portfolio continued to be skewed toward the financing of public sector projects, which represented 76.3% of the total at the end of the year. From the perspective of portfolio distribution by country, the largest exposure was Ecuador with 19.7% of the total loan portfolio, followed by Peru with 17.3%, Colombia with 16.6%, Venezuela with 15.0%, and Bolivia with 10.8%. Series "C" shareholder countries shared 20.6% of the total loan portfolio. It is important to underscore the increasing lending activity observed between CAF and the shareholder countries that are in the process of becoming special members of the Corporation, such as Argentina, Brazil, Panama, Paraguay and Uruguay. This group of shareholders, each of which has already formalized its intentions of becoming a full member by making the first capital contribution under the new agreements, received 44% of CAF's total financing approved in 2008. This will develop into an important diversification of the Institution's loan portfolio in the short term.

CAF's policies limit exposure to any individual country to a maximum of 30% of the total loan portfolio. Consistent with its objectives, CAF's main activity is the financing of infrastructure and social development projects, which together represented 79% of the loan portfolio at the end of 2008.

From the point of view of asset quality, the loan portfolio maintained its excellent credit quality (Table 2): there were no Non-performing loans and loan-loss provisions totaled USD 143 million or 1.4% of the loan portfolio. Also, loan write-offs were amounted to USD 4 million for the year.

Table 2 / **ASSET QUALITY** / (in USD millions)

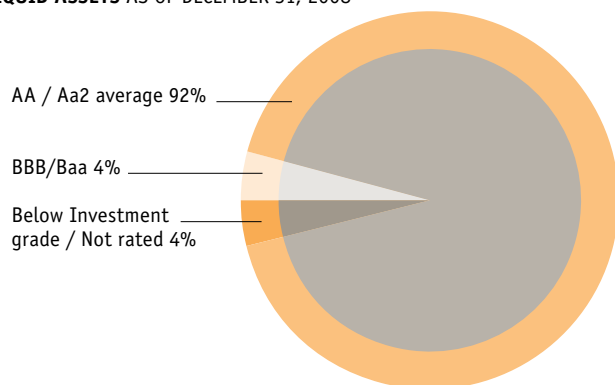
	2004	2005	2006	2007	2008
Overdues	0.0	0.0	0.0	0.0	0.1
Loans in non-accrual status	20.0	1.3	0.0	0.0	0.0
Allowance for loan losses	181.8	161.6	188.6	168.3	143.2
Overdue as a percentage of loan portfolio	0.0%	0.0%	0.0%	0.0%	0.0%
Non-accrual loans as a percentage of loan portfolio	0.28%	0.02%	0.00%	0.00%	0.00%
Allowance as a percentage of loan portfolio	2.56%	2.20%	2.33%	1.76%	1.41%

LIQUID INVESTMENTS

At December 31st 2008, liquid investments totaled USD 3.3 billion, which represented 23% of assets and 35% of borrowings. The investment portfolio was characterized by a short duration (an average of 0.3 years) and excellent credit quality (Graph 3): 92% of liquid assets was rated AA/Aa2 average or better, 4% was rated BBB/Baa, and 4% was

non-investment grade. CAF's policies require that at least 80% of liquid investments be held in investment-grade instruments with a credit rating of at least A-/A3.

Graph 3 / LIQUID ASSETS AS OF DECEMBER 31, 2008



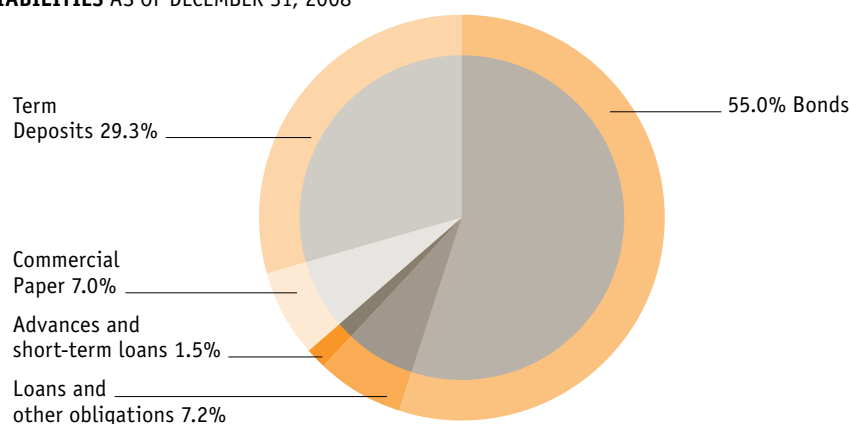
FUNDING

During 2008 bond issuance reached approximately USD 631 million distributed in several dealings. Among these transactions, it is worth noting CAF's continuous presence in the region through several bond placements in local currency as part of its strategy to promote the development and diversification of local capital markets. CAF placed two successful bond issues in the Colombian market for COP 150 billion (USD 68 million) and COP 94 billion (USD 43 million), respectively. In addition, CAF issued a new bond in the Mexican market for MXP 800 million (USD 76 million).

Besides the regional issues, CAF placed its first bond in the exclusive Swiss market, to which only highly-rated issuers have access, for the equivalent of approximately USD 194 million and a five year tenor. This total responded to the high demand received from more than 20 private and institutional investors and was double the amount initially announced by the Corporation. With this operation, CAF became the first Latin American issuer to access this market since 2005 and the second in the past decade. In addition, the Corporation reopened its 2017 Yankee bond issued in 2006 for USD 250 million.

Furthermore, CAF maintains an important presence in short-term markets through the continuous use of Commercial Paper Programs in the US and European markets, the Spanish Short-term Notes Program, as well as a significant increase in term deposits.

Graph 4 / LIABILITIES AS OF DECEMBER 31, 2008



At December 31 2008, 63% of CAF's funding came from the international capital markets. Bonds represented the main source of funds with 55% of total funding (Graph 4). Moreover, CAF observed an important increase in the deposits received from institutional investors in the region, representing 29% of total debt. Finally, 9% was from commercial paper and other short-term loans and 7% was related to medium and long-term loans and lines of credit. CAF has long-standing relations with the most important international banks, with official institutions from around the world, and with other multilateral financial institutions.

For details on the issues placed by CAF during the year, please refer to Table 3.

Table 3 / **2008 DEBT ISSUES IN THE INTERNATIONAL MARKETS**

Date	Market	Amount in original currency of issuance (in millions)	Equivalent in USD million
Bond Issuance			
January	Yankee	USD 250	250
May	Mexican	MXP 800	76
August	Swiss	CHF 200	194
December	Colombian	COP 150,250	68
December	Colombian	COP 94,250	43
	Sub-total 2008		631
	Total 1993-2008		9,262
Short-Term Issuance Programs			
	Commercial Paper (US)	USD 1,000	1,000
	Commercial Paper (Europe)	USD 1,000	1,000
	Short-term Note (Spain)	EUR 500	736
	Total 2008		2,736

CAPITAL

During 2008, CAF received new capital contributions from its shareholders for USD 206 million. At year-end 2008, shareholders' equity totaled USD 4.6 billion, a 10% increase compared to year-end 2007. This increase derived from new capital contributions as well as retained earnings. As a result of the increase in shareholders' equity, capitalization ratios continue to be well within CAF's policies on this matter (Table 4). Finally, as of the end of 2008, all shareholders were current in their equity obligations to CAF.

Table 4 / **CAPITALIZATION RATIOS**

	2004	2005	2006	2007	2008
Gearing (times) ¹	2.7	2.4	2.4	2.4	2.3
Leverage (times) ²	2.1	1.8	1.8	2.0	2.1
Capital / Risk Weighted Assets (BIS) ³	36.5%	40.6%	41.1%	36.3%*	38.4%*

¹ According to internal financial management policies, this exposure measure should be less or equal than 4.0.

² According to internal financial management policies, this indebtedness measure should be less or equal than 3.5.

³ According to internal financial management policies, this level of capitalization should be greater or equal than 30%.

* The 2007 and 2008 capitalization ratio was calculated based on the new methodology according to Basel II.

ASSET-LIABILITY MANAGEMENT

In order to reduce foreign exchange and interest rate risks, CAF's lending and borrowing activities are primarily conducted in floating-rate USD. At December 31 2008, more than 99.8% of assets and 99.9% of liabilities were denominated in USD after swaps, and 99.5% of assets and 98.5% of liabilities were based on six-month USD Libor. Transactions that are not denominated in USD and based on six-month USD Libor are swapped into these terms. The swap book totaled USD 4.5 billion at the end of 2008. CAF's policies require that swap counterparties be rated at least A/A2. CAF does not engage in trading of derivatives and these are used for hedging purposes only.

CAF also seeks to maintain a conservative relationship between the average life of assets and the average life of liabilities. At December 31 2008, the average life of its assets was 4.5 years and that of its liabilities was 3.2 years.



MANAGEMENT'S REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of Corporación Andina de Fomento (CAF) (the "Corporation") is responsible for establishing and maintaining effective internal control over financial reporting in the Corporation. Management has evaluated the Corporation's internal control over financial reporting as of December 31, 2008, based on the criteria for effective internal control determined in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

CAF's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management has assessed the effectiveness of CAF's internal control over financial reporting as of December 31, 2008. Based on this assessment, CAF's Management concluded that CAF's internal control over financial reporting was effective as of December 31, 2008.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the deception or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

CAF's financial statements as of December 31, 2008, have been audited by an independent registered public accounting firm, which has also issued an attestation report on management's assertion on the effectiveness of CAF's internal control over financial reporting. The attestation report, which is included in this document, expresses an unqualified opinion on management's assertion on the effectiveness of CAF's internal control over financial reporting as of December 31, 2008.

L. Enrique García
Executive President
and Chief Executive Officer

Hugo Sarmiento K.
Corporate Vice President,
VChief Financial Officer

Marcos Subía G.
Director, Accounting and Budget



INDEPENDENT ACCOUNTANTS' REPORT ON MANAGEMENT'S ASSERTION ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of
Corporación Andina de Fomento (CAF):

We have examined management's assertion, included in the accompanying *Management's Report on the Effectiveness of Internal Control Over Financial Reporting*, that Corporación Andina de Fomento (CAF) maintained effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Report). CAF's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on the Effectiveness of Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that Corporación Andina de Fomento (CAF) maintained effective internal control over financial reporting as of December 31, 2008 is fairly stated, in all material respects, based on the criteria established in the COSO Report.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of Corporación Andina de Fomento (CAF) as of December 31, 2008 and 2007, and the related statements of income, stockholders' equity and cash flows) for the years then ended and our report dated February 13, 2009 expressed an unqualified opinion of those financial statements.

KPMG

February 13, 2009
Caracas, Venezuela

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of
Corporación Andina de Fomento (CAF):

We have audited the accompanying balance sheets of Corporación Andina de Fomento (CAF) as of December 31, 2008 and 2007, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Corporación Andina de Fomento (CAF) as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

February 13, 2009
Caracas, Venezuela

CORPORACIÓN ANDINA DE FOMENTO (CAF)

BALANCE SHEETS

December 31, 2008 and 2007

(In thousands of U.S. dollars)

Assets	Note	2008	2007
Cash and due from banks		152,801	3,735
Deposits with banks	2	1,333,635	325,025
Marketable securities:			
Trading	3	1,638,186	882,726
Held-to-maturity	3	-	1,099,801
Securities purchased under resale agreements		-	36,400
Other investments	2	156,380	109,868
Loans (including US\$21,829 as of December 31, 2008, at fair value):	4	10,184,068	9,547,987
Less loan commissions, net of origination costs		51,359	46,940
Less allowance for losses	4	<u>143,167</u>	<u>168,257</u>
Loans, net		<u>9,989,542</u>	<u>9,332,790</u>
Equity investments	5	75,066	74,317
Interest and commissions receivable		195,237	231,510
Property and equipment	6	24,049	23,816
Other assets (including US\$676,186 and US\$436,585 as of December 31, 2008 and 2007, respectively, at fair value)	7	<u>707,559</u>	<u>469,985</u>
Total assets		<u>14,272,455</u>	<u>12,589,973</u>
Liabilities and Stockholders' Equity			
Deposits	8	2,773,119	1,521,047
Commercial paper	9	663,934	884,146
Advances and short-term borrowings		138,495	395,817
Bonds (including US\$4,930,784 and US\$4,258,395 as of December 31, 2008 and 2007, respectively, at fair value)	10	5,207,248	4,637,140
Borrowings and other obligations (including US\$4,540 as of December 31, 2007, at fair value)	11	684,023	808,487
Accrued interest and commissions payable		138,004	153,938
Accrued expenses and other liabilities (including US\$59,022 and US\$8,131 as of December 31, 2008 and 2007, respectively, at fair value)	12	<u>113,719</u>	<u>62,089</u>
Total liabilities		<u>9,718,542</u>	<u>8,462,664</u>
Subscribed and paid-in capital (authorized capital US\$10,000 million and US\$5,000 million for 2008 and 2007, respectively)		2,176,430	2,014,750
Additional paid-in capital		280,255	234,355
Reserves		1,785,754	1,477,405
Retained earnings		<u>311,474</u>	<u>400,799</u>
Total stockholders' equity	14	<u>4,553,913</u>	<u>4,127,309</u>
Total liabilities and stockholders' equity		<u>14,272,455</u>	<u>12,589,973</u>

See accompanying notes to the financial statements.

CORPORACIÓN ANDINA DE FOMENTO (CAF)**STATEMENTS OF INCOME**

Years ended December 31, 2008 and 2007

(In thousands of U.S. dollars)

	Note	2008	2007
Interest income:			
Loans	1(f)	549,139	700,397
Investments and deposits with banks	1(e) and 3	67,983	89,588
Loan commissions	1(f)	35,258	33,659
Total interest income		<u>652,380</u>	<u>823,644</u>
Interest expense:			
Deposits		55,721	34,605
Commercial paper		29,028	51,254
Advances and short-term borrowings		10,779	23,469
Bonds		193,054	262,991
Borrowings and other obligations		34,172	36,319
Commissions		5,173	5,291
Total interest expense		<u>327,927</u>	<u>413,929</u>
Net interest income		324,453	409,715
Credit to allowance for loan losses	4	<u>(22,970)</u>	<u>(23,133)</u>
Net interest income, after credit to allowance for loan losses		347,423	432,848
Non-interest income:			
Other commissions		1,741	3,729
Dividends and equity in earnings of investees		6,487	16,937
Gain on sale of equity investments		-	8,878
Other income		1,303	1,993
Total non-interest income		<u>9,531</u>	<u>31,537</u>
Non-interest expenses:			
Administrative expenses		56,482	51,195
Impairment charge for equity investments	5	1,157	82
Other expenses		1,324	31
Total non-interest expenses		<u>58,963</u>	<u>51,308</u>
Net income before ineffectiveness arising from fair value hedges		297,991	413,077
Ineffectiveness arising from fair value hedges		<u>13,483</u>	<u>(12,278)</u>
Net income		<u>311,474</u>	<u>400,799</u>

See accompanying notes to the financial statements.

CORPORACIÓN ANDINA DE FOMENTO (CAF)**STATEMENTS OF STOCKHOLDERS' EQUITY**

Years ended December 31, 2008 and 2007

(In thousands of U.S. dollars)

	Note	Subscribed and paid- in capital	Additional paid- in capital	Reserve pursuant to		Total reserves	Retained earnings	Total stock- holders' equity
				General reserve	Article N° 42 of by-laws			
Balances at December 31, 2006		1,870,615	256,707	989,378	255,374	1,244,752	320,653	3,692,727
Capital increase	14	50,650	71,133	-	-	-	-	121,783
Stock dividends	14	93,485	(93,485)	-	-	-	-	-
Net income	14	-	-	-	-	-	400,799	400,799
Appropriated for general reserve	14	-	-	200,553	-	200,553	(200,553)	-
Appropriated for reserve pursuant								
to Article N° 42 of by-laws	14	-	-	-	32,100	32,100	(32,100)	-
Distributions to stockholders' funds	15	-	-	-	-	-	(88,000)	(88,000)
Balances at December 31, 2007		2,014,750	234,355	1,189,931	287,474	1,477,405	400,799	4,127,309
Capital increase	14	81,160	126,420	-	-	-	-	207,580
Stock dividends	14	80,520	(80,520)	-	-	-	-	-
Net income	14	-	-	-	-	-	311,474	311,474
Appropriated for general reserve	14	-	-	268,249	-	268,249	(268,249)	-
Appropriated for reserve pursuant								
to Article N° 42 of by-laws	14	-	-	-	40,100	40,100	(40,100)	-
Distributions to stockholders' funds	15	-	-	-	-	-	(92,450)	(92,450)
Balances at December 31, 2008		<u>2,176,430</u>	<u>280,255</u>	<u>1,458,180</u>	<u>327,574</u>	<u>1,785,754</u>	<u>311,474</u>	<u>4,553,913</u>

See accompanying notes to the financial statements.

CORPORACIÓN ANDINA DE FOMENTO (CAF)**STATEMENTS OF CASH FLOW**

Years ended December 31, 2008 and 2007

(In thousands of U.S. dollars)

	Note	2008	2007
Cash flows from operating activities:			
Net income		311,474	400,799
Adjustments to reconcile net income to net cash (used in) provided by operating activities -			
Loss (gain) on sale of trading securities	3	(8,956)	1,150
Amortization of loan commissions, net of origination costs		(11,952)	(21,464)
Credit to allowance for loan losses	4	(22,970)	(23,133)
Impairment charge for equity investments	5	1,157	82
Equity in earnings of investees		(4,208)	(16,110)
Gain on sale of equity investments		-	(8,878)
Amortization of deferred charges		1,668	2,472
Depreciation of property and equipment	6	3,094	3,477
Provision for employees' severance indemnities and benefits		6,151	5,928
Provision for employees' savings plan		1,416	1,465
Net changes in operating assets and liabilities -			
Severance indemnities paid or advanced		(3,603)	(2,360)
Employees' savings plan paid or advanced		(48)	(876)
Trading securities, net	3	(747,689)	117,742
Interest and commissions receivable		36,273	(4,980)
Other assets		(15,290)	7,150
Accrued interest and commissions payable		(15,934)	17,060
Accrued expenses and other liabilities		(1,068)	(5,526)
Total adjustments and net changes in operating assets and liabilities		(781,959)	73,199
Net cash (used in) provided by operating activities		(470,485)	473,998
Cash flows from investing activities:			
Purchases of held-to-maturity securities	3	(3,583,769)	(3,825,725)
Maturities of held-to-maturity securities	3	4,683,570	3,082,052
Securities purchased under resale agreements		36,400	(36,400)
Purchases of other investments	2	(448,120)	(368,918)
Maturities of other investments	2	401,608	469,480
Loan origination and principal collections, net	4	(620,459)	(1,439,338)
Sales of equity investments	5	2,302	44,015
Purchases of property and equipment	6	(3,327)	(3,362)
Net cash provided by (used in) investing activities		468,205	(2,078,196)
	Carried forward,	(2,280)	(1,604,198)

CORPORACIÓN ANDINA DE FOMENTO (CAF)**STATEMENTS OF CASH FLOW**

Years ended December 31, 2008 and 2007

(In thousands of U.S. dollars)

	Note	2008	2007
Brought forward,		(2,280)	(1,604,198)
Cash flows from financing activities:			
Net increase in deposits		1,252,072	1,071,250
Net (decreases) increase in commercial paper		(225,405)	111,390
Proceeds from advances and short-term borrowings		487,304	1,258,905
Repayment of advances and short-term borrowings		(735,018)	(1,201,502)
Proceeds from issuance of bonds	10	626,298	718,428
Repayment of bonds	10	(236,141)	(671,396)
Proceeds from borrowings and other obligations	11	53,664	374,043
Repayment of borrowings and other obligations	11	(177,948)	(124,382)
Distributions to stockholders' funds	15	(92,450)	(88,000)
Proceeds from issuance of shares	14	207,580	121,783
Net cash provided by financing activities		<u>1,159,956</u>	<u>1,570,519</u>
Net increase (decrease) in cash and cash equivalents		1,157,676	(33,679)
Cash and cash equivalents at beginning of year		<u>328,760</u>	<u>362,439</u>
Cash and cash equivalents at end of year		<u><u>1,486,436</u></u>	<u><u>328,760</u></u>
Consisting of :			
Cash and due from banks		152,801	3,735
Deposits with banks		<u>1,333,635</u>	<u>325,025</u>
		<u><u>1,486,436</u></u>	<u><u>328,760</u></u>
Supplemental disclosure:			
Interest paid during the year		<u>343,443</u>	<u>386,469</u>
Noncash financing activities:			
Change in other assets due to fair value hedging relationships		239,601	151,221
Change in other liabilities due to fair value hedging relationships		<u>50,891</u>	<u>(62,727)</u>

See accompanying notes to the financial statements.

CORPORACIÓN ANDINA DE FOMENTO (CAF)

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

(In thousands of U.S. dollars)

(1) Significant Accounting Policies

(a) Description of Business

Corporación Andina de Fomento ("CAF" or the "Corporation") commenced operations on June 8, 1970 established under public international law which abides by the provisions of its by-laws. Series "A" and "B" Shareholder countries are: Bolivia, Colombia, Ecuador, Peru and Venezuela. Series "C" Shareholder countries are: Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Jamaica, Mexico, Panama, Paraguay, Spain, Trinidad and Tobago and Uruguay. In addition, there are 15 banks which are Series "B" shareholders. The Corporation has its headquarters in Caracas, Venezuela.

The Corporation's principal activity is to provide short, medium and long-term loans to finance projects, working capital, trade activities and to undertake feasibility studies for investment opportunities in its Shareholder countries.

(b) Financial Statement Presentation

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the functional currency is the U.S. dollar.

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the 2007 financial statements have been reclassified to conform to the current year's presentation.

(c) Foreign Currency Transactions

Transactions in currencies other than U.S. dollars are translated at exchange rates prevailing on the international market at the dates of the transactions. Foreign currency balances are translated at year-end exchange rates. Any gains or losses on foreign exchange including related hedge effects are included in the statement of income and are not significant.

(d) Cash Equivalents

Cash equivalents are defined as cash, due from banks and short-term deposits with an original maturity of three months or less.

(e) Marketable Securities

The Corporation classifies its debt securities in one of two categories: trading or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities which the Corporation has the ability and intent to hold until maturity.

Trading securities are recorded at fair value. Unrealized gains and losses on trading securities are included in interest income of investments and deposits with banks in earnings.

Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. A decline in the market value of any held-to-maturity security below cost that is deemed to be other than temporary results in a reduction in carrying amount. The impairment is charged to income and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective interest method.

Dividend and interest income are recognized when received and earned, respectively.

(f) Loans

The Corporation grants short, medium and long-term loans to finance projects, working capital, trade activities and undertake feasibility studies for investment opportunities in its member countries. Loans are reported at their outstanding unpaid principal balances adjusted for charge-offs, less the allowance for loan losses and loan commissions net of origination costs. Interest income is accrued on the unpaid principal balance. Loan commission fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method and are presented as loan commissions in the statement of income.

The accrual for interest on loans is discontinued at the time a private sector loan is 90 days (180 days for public sector loans) delinquent unless the credit is well-secured and in process of collection.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The nonaccrual loans are considered impaired. Factors considered by management in determining impairment include payments status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

(g) Equity Investments

CAF participates with equity investments in companies and investment funds in strategic sectors, with a view to promoting the development of such companies and their participation in the securities markets and to serve as a catalytic agent in attracting resources into the Shareholder countries.

Equity investments are accounted for using the equity method or at cost. If the Corporation has the ability to exercise significant influence over the operating and financial policies of the investee, which is generally presumed to exist at a 20% of equity ownership level, the equity investments are accounted for using the equity method. Under the equity method, the carrying value of the equity investment is adjusted for the Corporation's proportionate share of earnings or losses, dividends received and certain other transactions of the investee company.

A decline in the market value of any equity investment accounted under the equity method or at cost, that is deemed to be other than temporary, results in a reduction in carrying amount to fair value. The impairment is charged to income and a new cost basis for the investment is established.

(h) Allowance for Loan Losses

The allowance for loan losses is maintained at a level the Corporation believes is adequate but not excessive to absorb probable losses inherent in the loan portfolio as of the date of the financial statements. The general allowance for loan losses is established by the Corporation based on the individual risk rating for the long-term foreign currency debt of the borrower countries which is assigned by the international risk rating agencies as of the date of the financial statements preparation. This country risk rating considers a default probability. Given the Corporation's status as a preferred creditor and taking onto account the immunities and privileges conferred into it by its member countries, which are established in the Corporation's by-laws and other similar agreements, a factor reflecting a lower default probability - usually equivalent to a better risk rating - is used.

A specific allowance is established by the Corporation for those loans that are considered impaired. A loan is considered as impaired when, based on currently available information and events, there exists the probability that CAF will not recover the total amount of principal and interest as agreed in the terms of the original loan contract. The impairment of loans is determined on a loan by loan basis based on the present value of expected future cash flows, discounted at the loan's effective interest rate.

Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

(i) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation, calculated on the straight-line method, is charged to operations over the estimated useful lives of assets.

(j) Employees' Severance Indemnities

The Corporation accrues for employees' severance indemnities in accordance with the Corporation's personnel regulations and the Partial Reform of the Organic Labor Law of the Bolivarian Republic of Venezuela, which establish that employees are entitled to an indemnity upon the termination of employment, equivalent to five days remuneration for each month of service, plus two days for each year of service up to a maximum of 30 days, commencing from the second year. Under certain circumstances the reformed law also provides for the payment for unjustified dismissal. The accrual is presented net of advances and interest is paid annually on the outstanding balance.

(k) Pension Plan

The Corporation established in March 2005 a defined benefit pension plan (the Plan). The Plan is contributory and the benefits are based on years of service and the average employee's salary for the three consecutive years of service with the highest salary.

(l) Derivative Instruments and Hedging Activities

All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Corporation designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or a foreign-currency fair-value or cash-flow hedge ("foreign currency" hedge). The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Corporation discontinues hedge accounting prospectively.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in income. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income, until income is affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either income or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge.

The Corporation discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; the derivative expires or is sold, terminated, or exercised; the derivative is de-designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur; a hedged firm commitment no longer meets the definition of a firm commitment; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Corporation continues to carry the derivative on the balance sheet at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same

manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Corporation continues to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet and recognizes any gain or loss in income. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the Corporation continues to carry the derivative on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized immediately in income. In all situations in which hedge accounting is discontinued, the Corporation continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in income.

(m) Adoption of SFAS N° 157-Fair Value Measurements

The Corporation adopted SFAS N° 157, "Fair Value Measurements" (SFAS N° 157), as of January 1°, 2008. SFAS N° 157 defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions to determine the best price of these instruments. These two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Corporation to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

When available, the Corporation typically uses quoted market prices to determine fair value, and classifies such items in Level 1. In some cases where a market price is not available the Corporation uses acceptable alternatives to calculate the fair value for these instruments, in which case the items are classified in Level 2. If quoted market prices are not available, the fair value is based on internally developed valuation techniques. The fair value of items determined under this procedure are classified in Level 3.

(n) Recent Accounting Pronouncements

In February, 2007 the FASB issued SFAS N° 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement N° 115". SFAS N° 159 permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. SFAS N° 159 contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. SFAS N° 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The management of the Corporation has determined that the adoption of SFAS N° 159 for cross currency hedge transactions beginning January 1°, 2009, will not have a significant effect on its financial statements.

On March 19, 2008, the FASB issued SFAS N° 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement N° 133". SFAS N° 161 changes the disclosure requirements for derivative instruments and hedging activities. It requires enhanced disclosures about how and why an entity uses derivatives, how derivatives and related hedged items are accounted for, and how derivatives and hedged items affect an entity's financial position, performance, and cash flows. The provisions of SFAS N° 161 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. Because SFAS N° 161 amends only the disclosure requirements for derivative instruments and hedged items, the adoption of SFAS N° 161 will not affect Corporation's financial results.

On September 12, 2008, the FASB issued Staff Position N° 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement N° 133 and FASB Interpretation N° 45; and Clarification of the Effective Date of FASB Statement N° 161. This FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. It amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The FSP also amends FASB Interpretation N° 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others (FIN 45), to require an additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend SFAS 133 and FIN 45 are effective for reporting periods (annual or interim) ending after November 15, 2008. Because the FSP amends only the disclosure requirements for credit derivatives and certain guarantees, the adoption of the FSP will not affect Corporation's financial results.

(2) Deposits with Banks and Other Investments

Deposits with banks mature in three months or less and include the following:

	December 31,	
	2008	2007
U.S. dollars	1,286,602	324,549
Other currencies	47,033	476
	<u>1,333,635</u>	<u>325,025</u>

Deposits with maturities over 90 days are reported in the balance sheets as other investments.

(3) Marketable Securities

Trading Securities

A summary of trading securities follows:

	Amount	Average maturity (years)	Average yield (%)
At December 31, 2008 -			
U.S. Treasury Notes	7,070	8.18	4.21
Bonds of non-U.S. governments and government entities	336,165	0.46	1.94
Financial institutions and corporate securities	1,294,951	0.89	6.11
	<u>1,638,186</u>	<u>0.83</u>	<u>5.25</u>
At December 31, 2007 -			
U. S. Treasury Notes	61,965	0.04	4.38
Bonds of non-U.S. governments and government entities	191,449	0.25	6.33
Financial institutions and corporate securities	629,312	1.29	4.62
	<u>882,726</u>	<u>0.97</u>	<u>4.98</u>

Trading securities include net unrealized losses of US\$10,955 and US\$2,537 at December 31, 2008 and 2007, respectively.

Held-to-Maturity Securities

A summary of held-to-maturity securities follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At December 31, 2007 -				
Bonds of non-U.S. governments and government entities	36,205	2	(6)	36,201
Financial institutions and corporate securities	1,063,596	-	(309)	1,063,287
	<u>1,099,801</u>	<u>2</u>	<u>(315)</u>	<u>1,099,488</u>

All the Corporation's held-to-maturity securities at December 31, 2007 matured in 2008.

(4) Loans

Loans include short, medium and long-term loans to finance projects, working capital and trade activities. The majority of the loan contracts have been subscribed with the Series "A" and "B" Shareholder countries, or with private institutions or companies of these countries.

Loans by country are summarized as follows:

	Bolivia	Colombia	Ecuador	Peru	Venezuela	Others	Total
At December 31, 2008 -							
Loans	<u>1,102,063</u>	<u>1,705,282</u>	<u>2,017,638</u>	<u>1,769,725</u>	<u>1,535,146</u>	<u>2,052,253</u>	10,182,107
Fair value adjustments on hedging activities							1,961
Carrying value of loans							<u>10,184,068</u>
At December 31, 2007 -							
Loans	<u>1,040,036</u>	<u>1,633,002</u>	<u>2,149,450</u>	<u>1,804,853</u>	<u>1,469,836</u>	<u>1,450,810</u>	<u>9,547,987</u>

Fair value adjustments to the carrying value of loans represent adjustments to the carrying value of transactions in designated fair value hedging relationships.

At December 31, 2008 and 2007, loans in other currencies were granted for an equivalent of US\$24,211 and US\$2,337, respectively, principally in Peruvian nuevos soles and Colombian pesos. At December 31, 2008 and 2007, loans include fixed interest rate loans of US\$49,697 and US\$54,282, respectively.

The loan portfolio composition and average yield of loans disbursed and outstanding are summarized below:

	December 31,			
	2008		2007	
	Amount	Average yield (%)	Amount	Average yield (%)
Loans	<u>10,182,107</u>	<u>4.97</u>	<u>9,547,987</u>	<u>7.22</u>

Loans by industry segments are as follows:

	December 31,			
	2008		2007	
	Amount	%	Amount	%
Agriculture, hunting and forestry	91,098	1	113,399	1
Exploitation of mines and quarries	70,000	1	70,000	1
Manufacturing industry	415,682	4	278,644	3
Supply of electricity, gas and water	2,001,991	20	1,079,173	11
Transport, warehousing and communications	3,200,520	30	3,053,811	32
Commercial banks	1,456,687	14	1,636,937	17
Development banks	135,037	1	106,260	1
Social and other infrastructure programs	2,802,229	28	3,196,974	33
Other activities	8,863	1	12,789	1
	<u>10,182,107</u>	<u>100</u>	<u>9,547,987</u>	<u>100</u>

Loans mature as follows:

	December 31,	
	2008	2007
Remaining maturities -		
Less than one year	2,209,408	2,290,503
Between one and two years	970,560	964,836
Between two and three years	962,227	827,646
Between three and four years	938,324	884,622
Between four and five years	899,844	868,709
Over five years	4,201,744	3,711,671
	<u>10,182,107</u>	<u>9,547,987</u>

At December 31, 2007, all loans were performing except for certain loans which were classified as impaired and were in nonaccrual status; however, at December 31, 2008 there is not loans classified as impaired. The average recorded investment in impaired loans during the year ended December 31, 2007 was approximately US\$30.

• Loan Participations and A/B Loans

During 2008, the Corporation received funds from commercial banks amounting to US\$50,000, for loans which were sold by the Corporation to the banks without recourse. These participations are administered by the Corporation on behalf of the participants.

Also, The Corporation administers loan participations provided to clients, and assumes the credit risk only for that portion of the loan owned by the Corporation. As of the end of the year 2008, the Corporation administered loans of this nature whereby other financial institutions provided funds amounting to US\$450,000.

• Allowance for Loan Losses

Movements of the allowance for loan losses follow:

	December 31,	
	2008	2007
Balances at beginning of year	168,257	188,608
Credit to results of operations	(22,970)	(23,133)
Recoveries	1,880	2,970
Loans charged-off	(4,000)	(188)
Balances at end of year	<u>143,167</u>	<u>168,257</u>

(5) Equity Investments

A summary of equity investments follows:

	December 31,	
	2008	2007
Direct investments in companies (including investments accounted for using the equity method of US\$6,769 and US\$5,727, at December 31, 2008 and 2007, respectively)	15,481	14,389
Investment funds (including investments accounted for using the equity method of US\$42,347 and US\$47,458, at December 31, 2008 and 2007, respectively)	59,585	59,928
	<u>75,066</u>	<u>74,317</u>

The Corporation recorded an impairment charge of US\$1,157 and US\$82 for the years ended December 31, 2008 and 2007, respectively, related to equity investments accounted for at cost.

(6) Property and Equipment

A summary of property and equipment follows:

	December 31,	
	2008	2007
Land	14,069	14,069
Buildings	18,856	19,353
Buildings improvements	15,400	13,686
Furniture and equipment	10,591	8,996
Vehicles	450	334
	59,366	56,438
Less accumulated depreciation	35,317	32,622
	<u>24,049</u>	<u>23,816</u>

Depreciation is provided for property and equipment on the straight-line method over the estimated useful lives of the respective classes of assets, as follows:

Buildings	15 years
Buildings improvements	5 years
Furniture and equipment	2 to 5 years
Vehicles	<u>5 years</u>

(7) Other Assets

A summary of other assets follows:

	December 31,	
	2008	2007
Deferred charges	28,843	24,644
Derivative assets (see note 17)	676,186	436,585
Other assets	2,530	8,756
	<u>707,559</u>	<u>469,985</u>

(8) Deposits

The Corporation's deposits of US\$2,773,119 at December 31, 2008 mature in 2009 (US\$1,521,047 at December 31, 2007 - mature in 2008). At December 31, 2008 and 2007, the interest rates on deposits ranged from 0.10% to 4.50% and from 4.33% to 5.33%, respectively.

(9) Commercial Paper

The Corporation's commercial paper of US\$663,934 at December 31, 2008 matures in 2009 (US\$884,146 at December 31, 2007 - matures in 2008). At December 31, 2008 and 2007, the interest rates on commercial paper ranged from 0.47% to 3.12% and from 4.49% to 7.02%, respectively.

(10) Bonds

An analysis of bonds follows:

	December 31,					
	2008			2007		
	Principal outstanding At original exchange rate	Principal outstanding At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)	Principal outstanding At original exchange rate	Principal outstanding At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)
U.S. dollars	2,642,528	2,642,528	3.94	2,496,144	2,496,144	6.20
Euros	711,723	904,765	3.35	711,489	956,485	5.83
Yen	336,402	441,258	2.48	474,651	486,941	5.66
Colombian Pesos	210,434	229,798	3.46	100,000	135,298	4.96
Venezuelan Bolivars	209,302	209,566	1.77	209,302	209,302	4.94
Swiss francs	194,903	187,908	4.84	-	-	-
Mexican Pesos	145,223	111,925	3.47	68,807	68,897	5.33
Peruvian Nuevos Soles	75,748	79,121	3.49	75,748	82,938	5.80
Pounds Sterling	63,410	58,555	5.11	63,375	81,447	7.98
	<u>4,589,673</u>	4,865,424		<u>4,199,516</u>	4,517,452	
Fair value adjustments on hedging activities		341,824			119,688	
Carrying value of bonds		<u>5,207,248</u>			<u>4,637,140</u>	

Fair value adjustments to the carrying value of bonds represent adjustments to the carrying value of transactions in designated fair value hedging relationships.

A summary of the bonds issued, by remaining maturities, follows:

	December 31,	
	2008	2007
Remaining maturities -		
Less than one year	476,052	137,131
Between one and two years	447,419	576,348
Between two and three years	783,415	371,305
Between three and four years	761,227	783,722
Between four and five years	760,680	761,539
Over five years	<u>1,360,880</u>	<u>1,569,471</u>
	<u>4,589,673</u>	<u>4,199,516</u>

At December 31, 2008 and 2007, fixed interest rate bonds amounted to US\$3,609,203 and US\$3,193,182, respectively, of which US\$1,106,203 and US\$941,182, respectively, are denominated in yen, euros, pounds sterling, Swiss francs, Colombian pesos and Peruvian nuevos soles.

(11) Borrowings and Other Obligations

An analysis of borrowings and other obligations and their weighted average cost, follows:

	December 31,					
	2008			2007		
	Principal outstanding At original exchange rate	Principal outstanding At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)	Principal outstanding At original exchange rate	Principal outstanding At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)
U.S. dollars	678,204	678,204	3.27	799,352	799,352	5.39
Yen	-	-	-	3,922	4,427	6.56
Euros (at spot rate)	-	-	-	654	654	4.80
Peruvian Nuevos Soles (at spot rate)	4,300	4,300	8.18	2,337	2,337	5.90
Other currencies (at spot rate)	1,519	1,519	-	2,042	2,042	-
	<u>684,023</u>	684,023		<u>808,307</u>	808,812	
Fair value adjustments on hedging activities		-			(325)	
Carrying value of borrowings and other obligations		<u>684,023</u>			<u>808,487</u>	

Fair value adjustments to the carrying value of borrowings and other obligations represent adjustments to the carrying value of transactions in designated fair value hedging relationships.

At December 31, 2008 and 2007, there are fixed interest-bearing borrowings and other obligations amounting to US\$11,342 and US\$14,514, respectively.

At December 31, 2007 borrowings and other obligations include advances for US\$120,000 with original maturities over one year; however, those advances matured in December 2008. Those advances bore interest between 4.61% and 5.13%.

Borrowings and other obligations, by remaining maturities, are summarized below:

	December 31,	
	2008	2007
Remaining maturities -		
Less than one year	147,881	191,285
Between one and two years	120,589	144,244
Between two and three years	132,268	114,516
Between three and four years	50,649	120,910
Between four and five years	85,101	42,424
Over five years	147,535	194,928
	<u>684,023</u>	<u>808,307</u>

Some borrowing agreements contain covenants conditioning the use of the funds for specific purposes or projects.

At December 31, 2008 and 2007 there were unused term credit facilities amounting to US\$122,500 and US\$223,700, respectively.

(12) Accrued Expenses and Other Liabilities

A summary of accrued expenses and other liabilities follows::

	December 31,	
	2008	2007
Employees' severance indemnities, benefits and savings plan	51,145	48,964
Derivative liabilities (see note 17)	59,022	8,131
Deferred income	-	2,942
Other liabilities	3,552	2,052
	<u>113,719</u>	<u>62,089</u>

(13) Pension Plan

The Corporation established in March 2005 a defined benefit pension plan (the Plan) which is mandatory for all new employees as of the date of implementation of the Plan and voluntary for all other employees. The Plan is contributory and the benefits are based on years of service and the average employee's salary for the three consecutive years of service with the highest salary. The employees make monthly contributions to the Plan equal to 7% of their salary. Voluntary participants must contribute to the Plan certain withheld benefits. The Plan has 129 participants.

The measurement date used to determine pension plan benefits is December 31.

The Plan's benefit obligation (PBO) and assets as of December 31, 2008 and 2007 follow:

	December 31,	
	2008	2007
Plan's benefit obligation (PBO)	1,219	577
Assets	<u>1,219</u>	<u>577</u>

Weighted-average assumptions used to determine net benefit cost from the origination of the Plan to December 31, 2008 and 2007 follow:

Discount rate	4%
Expected long-term rate of return on Plan assets	4%
Rate of salary increase	<u>3%</u>

(14) Stockholders' Equity*Authorized Capital*

The authorized capital of the Corporation at December 31, 2008 and 2007, amounts to US\$10,000,000 and US\$5,000,000, respectively, distributed among Series "A", "B" and "C" shares.

Subscribed Callable Capital

The payment of subscribed callable capital will be as required, with prior approval of the Board of Directors, in order to meet financial obligations of the Corporation, when internal resources are inadequate.

Shares

The Corporation's shares are classified as follows:

Series "A" shares: Subscribed by the governments or public-sector institutions, semipublic or private entities with social or public objectives of: Bolivia, Colombia, Ecuador, Peru and Venezuela. These shares grant the right of representation on the Corporation's board of one principal director and one alternate director per share. Series "A" shares have a par value of US\$1,200.

Series "B" shares: Subscribed by the governments or public-sector institutions, semipublic or private entities and commercial banks of: Bolivia, Colombia, Ecuador, Peru and Venezuela. These shares grant the right of representation on the Corporation's board of one principal director and one alternate director. Also, the commercial banks are entitled to one principal director and one alternate director on the board. Series "B" shares have a par value of US\$5.

Series "C" shares: Subscribed by legal entities or individuals belonging to countries other than Bolivia, Colombia, Ecuador, Peru and Venezuela. These shares provide for representation on the board of directors of the Corporation of two principal directors and their respective alternates, who are elected by the holders of these shares. Series "C" shares have a par value of US\$5.

A summary of the movement in subscribed and paid-in capital for the years ended December 31, 2008 and 2007, follows:

	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
At December 31, 2006	5	332,387	40,536	6,000	1,661,935	202,680	1,870,615
Dividends in shares	-	16,675	2,022	-	83,375	10,110	93,485
Issued for cash	-	2,484	7,646	-	12,420	38,230	50,650
At December 31, 2007	5	351,546	50,204	6,000	1,757,730	251,020	2,014,750
Dividends in shares	-	14,103	2,001	-	70,515	10,005	80,520
Issued for cash	-	622	15,610	-	3,110	78,050	81,160
At December 31, 2008	5	366,271	67,815	6,000	1,831,355	339,075	2,176,430

Subscribed and paid-in capital is held as follows at December 31, 2008:

Stockholder	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
Bolivia	1	28,866	-	1,200	144,330	-	145,530
Colombia	1	102,420	-	1,200	512,100	-	513,300
Ecuador	1	29,102	-	1,200	145,510	-	146,710
Peru	1	102,801	-	1,200	514,005	-	515,205
Venezuela	1	102,799	-	1,200	513,995	-	515,195
Argentina	-	-	17,481	-	-	87,405	87,405
Brazil	-	-	13,020	-	-	65,100	65,100
Chile	-	-	4,276	-	-	21,380	21,380
Costa Rica	-	-	2,539	-	-	12,695	12,695
Dominican Republic	-	-	3,448	-	-	17,240	17,240
Jamaica	-	-	141	-	-	705	705
Mexico	-	-	3,638	-	-	18,190	18,190
Panama	-	-	3,566	-	-	17,830	17,830
Paraguay	-	-	1,410	-	-	7,050	7,050
Spain	-	-	12,049	-	-	60,245	60,245
Trinidad & Tobago	-	-	160	-	-	800	800
Uruguay	-	-	6,087	-	-	30,435	30,435
Commercial banks	-	283	-	-	1,415	-	1,415
	5	366,271	67,815	6,000	1,831,355	339,075	2,176,430

At December 31, 2008, the distribution of unpaid subscribed capital and of subscribed callable capital is presented below:

Stockholder	Unpaid Subscribed Capital				Subscribed Callable Capital			
	Series "B"		Series "C"		Series "B"		Series "C"	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Bolivia	-	-	-	-	14,400	72,000	-	-
Colombia	-	-	-	-	50,400	252,000	-	-
Ecuador	-	-	-	-	14,400	72,000	-	-
Peru	-	-	-	-	50,400	252,000	-	-
Venezuela	-	-	-	-	50,400	252,000	-	-
Argentina	-	-	33,182	165,910	-	-	-	-
Brasil	-	-	35,378	176,890	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Dominican Republic	-	-	1,102	5,510	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
Panama	-	-	10,769	53,845	-	-	-	-
Spain	-	-	-	-	-	-	40,000	200,000
Uruguay	-	-	8,333	41,665	-	-	-	-
	-	-	88,764	443,820	180,000	900,000	42,400	212,000

Subscribed and paid-in capital is held as follows at December 31, 2007:

Stockholder	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
Bolivia	1	27,149	-	1,200	135,745	-	136,945
Colombia	1	98,473	-	1,200	492,365	-	493,565
Ecuador	1	27,975	-	1,200	139,875	-	141,075
Peru	1	98,839	-	1,200	494,195	-	495,395
Venezuela	1	98,837	-	1,200	494,185	-	495,385
Argentina	-	-	7,187	-	-	35,935	35,935
Brazil	-	-	12,520	-	-	62,600	62,600
Chile	-	-	4,112	-	-	20,560	20,560
Costa Rica	-	-	2,442	-	-	12,210	12,210
Dominican Republic	-	-	2,257	-	-	11,285	11,285
Jamaica	-	-	136	-	-	680	680
Mexico	-	-	3,499	-	-	17,495	17,495
Panama	-	-	1,746	-	-	8,730	8,730
Paraguay	-	-	1,356	-	-	6,780	6,780
Spain	-	-	11,586	-	-	57,930	57,930
Trinidad & Tobago	-	-	154	-	-	770	770
Uruguay	-	-	3,209	-	-	16,045	16,045
Commercial banks	-	273	-	-	1,365	-	1,365
	5	351,546	50,204	6,000	1,757,730	251,020	2,014,750

At December 31, 2007, the distribution of unpaid subscribed capital and of subscribed callable capital is presented below:

Stockholder	Unpaid Subscribed Capital				Subscribed Callable Capital			
	Series "B"		Series "C"		Series "B"		Series "C"	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Bolivia	622	3,110	-	-	14,400	72,000	-	-
Colombia	-	-	-	-	50,400	252,000	-	-
Ecuador	-	-	-	-	14,400	72,000	-	-
Peru	-	-	-	-	50,400	252,000	-	-
Venezuela	-	-	-	-	50,400	252,000	-	-
Argentina	-	-	2,054	10,270	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Dominican Republic	-	-	2,203	11,015	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
Panama	-	-	506	2,530	-	-	-	-
Spain	-	-	-	-	-	-	40,000	200,000
Uruguay	-	-	705	3,525	-	-	-	-
	622	3,110	5,468	27,340	180,000	900,000	42,400	212,000

- **General Reserve**

The general reserve was set-up to cover possible contingencies. The stockholders decided to increase the reserve by US\$268,249 and US\$200,553 during the years ended December 31, 2008 and 2007, by appropriations from net income for the years ended December 31, 2007 and 2006, respectively.

- **Reserve Pursuant to Article N° 42 of the By-laws**

The Corporation's by-laws establish that at least 10% of annual net income is to be allocated to a reserve fund until that fund amounts to 50% of the subscribed capital. Additional allocations may be approved by the stockholders. At the stockholders' meetings in March 2008 and 2007, it was authorized to increase the reserve by US\$40,100 and US\$32,100, from net income for the years ended December 31, 2007 and 2006, respectively.

(15) Distributions to Stockholders' Funds

The Corporation's board distributes a portion of retained earnings to special funds, created to promote technical cooperation, sustainable human development and management of poverty relief funds in the Shareholder countries.

In March 2008 and 2007, the stockholders agreed to distribute US\$92,450 and US\$88,000, from retained earnings at December 31, 2007 and 2006, respectively, to the stockholders' funds.

(16) Tax Exemptions

The Corporation is exempt from all taxes on income, properties and other assets. It is also exempt from liability related to the payment, withholding or collection of any tax or other levy.

(17) Derivative Instruments and Hedging Activities

The Corporation seeks to match the maturities of its liabilities to the maturities of its loan portfolio. The Corporation utilizes derivative financial instruments to reduce exposure to interest rate risk and foreign currency risk. The Corporation does not hold or issue derivative financial instruments for trading or speculative purposes.

By using derivative financial instruments to hedge exposures to changes in interest rate and foreign exchange rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Corporation, which creates credit risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, it does not possess credit risk. The Corporation minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is "A" or higher.

The market risk associated with interest rate and currency risk is managed by swapping loans and borrowings subject to fixed interest rates and denominated in foreign currency into floating interest rate instruments denominated in U.S. dollars. The Corporation enters into derivative instruments with market risk characteristics that are expected to change in a manner that will offset the economic change in value of specifically identified loans, bonds or borrowings and other obligations. Derivative contracts held by the Corporation consist of interest rate and cross-currency swaps and are designated as fair value hedges of specifically identified loans, bonds or borrowings and other obligations with fixed interest rates or non U.S. currency exposure.

The following table presents the notional amount and fair values of interest rate swaps and cross-currency swaps and the underlying hedged items at December 31, 2008 and 2007:

	Notional amount		Fair value	
	Interest rate swap	Cross-currency swap	Derivative assets	Derivative liabilities
At December 31, 2008 -				
Bonds	2,367,000	-	279,104	-
Bonds	-	1,946,207	389,762	46,964
Others investments	-	13,815	1,284	-
Loans	-	19,868	396	1,680
Commercial paper	-	64,128	5,640	-
Advances and short-term borrowings	-	114,621	-	10,378
	<u>2,367,000</u>	<u>2,158,639</u>	<u>676,186</u>	<u>59,022</u>
At December 31, 2007 -				
Bonds	2,117,000	-	53,527	-
Bonds	-	1,703,770	381,247	6,284
Borrowings and other obligations	-	3,923	369	213
Commercial paper	-	149,981	1,442	871
Advances and short-term borrowings	-	74,417	-	763
	<u>2,117,000</u>	<u>1,932,091</u>	<u>436,585</u>	<u>8,131</u>

For the years ended December 31, 2008 and 2007 all of the Corporations' derivatives which have been designated in hedging relationship were considered fair value hedges. The change in the fair value of such derivative instruments and the change in fair value of hedged items attributable to risk being hedged is included in the statement of income.

(18) Fair Value Measurement

SFAS N° 157 establishes a single authoritative definition of value, sets out a framework for measuring fair value, and provides a hierarchal disclosure framework for assets and liabilities measured at fair value. The adoption of SFAS N° 157 did not have any impact on the Corporation's financial position or results of operations. Presented below is information about the determination of the fair value, assets and liabilities recorded in the Corporation's balance sheet at fair value on a recurring basis, and assets and liabilities recorded in the Corporation's balance sheet at fair value on a nonrecurring basis.

Determination of Fair Value

The following section describes the valuation methodologies used by the Corporation to measure various financial instruments at fair value, including an indication of the level in the fair-value hierarchy in which each instrument is generally classified. Where appropriate the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

When available, the Corporation generally uses quoted market prices to determine fair value, and classifies such items in Level 1. In some cases where a market price is not available, the Corporation will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified in Level 2.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, etc. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

Where available, the Corporation may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices

are available, those valuations would be classified as Level 2. If prices are not available, other valuation techniques would be used and the item would be classified as Level 3.

- **Marketable securities:** The Corporation uses quoted market prices to determine the fair value of trading securities and those transactions are classified in Level 1 of the fair-value hierarchy. *Marketable securities* include investments in government securities, equity and debt securities.
- **Loans:** The fair value of fixed rate loans, which are hedged using derivative transactions, is determined using the current variable interest rate for similar loans. Loans transactions are classified in Level 2 of the fair value hierarchy.
- **Derivative assets and liabilities:** Derivative transactions contracted and designated by the Corporation as hedges of risks related to interest rates, currency rates or both for transactions recorded as financial assets or liabilities are also presented at fair value. In those cases the fair value is calculated utilizing market prices given by the counterparties. Derivative transactions are classified in Level 2 of the fair-value hierarchy.
- **Bonds, borrowings and other obligations:** For bonds issued and medium and long term borrowings of the Corporation which are hedged using derivative transactions, the fair value is determined utilizing internal valuation techniques, such as, discounting expected cash flows using the appropriate discount rates for the applicable maturity, reflecting the fluctuation of the hedged variables such as interest and exchange rates. Those transactions are generally classified in Level 2 of the fair-value hierarchy depending on the observability of significant inputs to the model.

Items Measured at Fair Value on a Recurring Basis

The following tables present for each of the fair-value hierarchy levels the Corporation's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2008 and 2007.

	Level 1	Level 2	Level 3	Net balance
At December 31, 2008 -				
Assets -				
Marketable securities	1,638,186	-	-	1,638,186
Loans	-	21,829	-	21,829
Derivative assets	-	676,186	-	676,186
	<u>1,638,186</u>	<u>698,015</u>	<u>-</u>	<u>2,336,201</u>
Liabilities -				
Bonds	-	4,930,784	-	4,930,784
Derivative liabilities	-	59,022	-	59,022
	<u>-</u>	<u>4,989,806</u>	<u>-</u>	<u>4,989,806</u>
At December 31, 2007 -				
Assets -				
Marketable securities	882,726	-	-	882,726
Derivative assets	-	436,585	-	436,585
	<u>882,726</u>	<u>436,585</u>	<u>-</u>	<u>1,319,311</u>
Liabilities -				
Bonds	-	4,258,395	-	4,258,395
Borrowings and other obligations	-	4,540	-	4,540
Derivative liabilities	-	8,131	-	8,131
	<u>-</u>	<u>4,271,066</u>	<u>-</u>	<u>4,271,066</u>

Items Measured at Fair Value on a Nonrecurring Basis

Equity investments initially recorded at cost are measured at fair value on a non-recurring basis and therefore are not included in the tables above. Equity investments with a cost of US\$25,950 and US\$21,132 as December 31, 2008 and 2007, respectively, were written down to their fair value of US\$24,793 and US\$21,050, respectively, resulting in an impairment charge of US\$1,157 and US\$82 during 2008 and 2007, respectively, which was included in the statement of income. Such equity investments are classified in Level 3 of the fair-value hierarchy. The fair value of those equity investments is determined based on financial analysis of the investees.

(19) Fair Value of Financial Instruments

In accordance with SFAS N° 107, the Corporation also estimated the fair value of all financial instruments in the Corporation's balance sheet, including those financial instruments carried at cost, as presented in the table below. The fair value estimates, methods and assumptions set forth below for the Corporation's financial instruments are made solely to comply with the requirements of SFAS N° 107 and should be read in conjunction with the financial statements.

The following is a summary of the carrying value and estimated fair value of the Corporation's financial instruments at December 31, 2008 and 2007::

	December 31,			
	2008		2007	
	Carrying amount	Estimate fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash and due from banks	152,801	152,801	3,735	3,735
Deposits with banks	1,333,635	1,333,635	325,025	325,025
Trading securities	1,638,186	1,638,186	882,726	882,726
Held-to-maturity securities	-	-	1,099,801	1,099,488
Securities purchased under resale agreements	-	-	36,400	36,400
Other investments	156,380	156,380	109,868	109,868
Loans, net	9,989,542	9,996,394	9,332,790	9,337,914
Equity investments	75,066	75,066	74,317	74,317
Interest and commissions receivable	195,237	195,237	231,510	231,510
Derivative contracts (included in other assets)	676,186	676,186	436,585	436,585
Financial liabilities:				
Deposits	2,773,119	2,773,119	1,521,047	1,521,047
Commercial paper	663,934	663,934	884,146	884,146
Advances and short-term borrowings	138,495	138,495	395,817	395,817
Bonds	5,207,248	5,209,957	4,637,140	4,640,000
Borrowings and other obligations	684,023	684,619	808,487	807,933
Derivative contracts (included in accrued expenses and other liabilities)	59,022	59,022	8,131	8,131
Accrued interest and commissions payable	138,004	138,004	153,938	153,938

The following methods and assumptions were used to estimate the fair value of those financial instruments, not accounted for at fair value under SFAS N° 157:

- *Cash and due from banks, deposits with banks, interest and commissions receivable, other assets, deposits, commercial paper, advances and short-term borrowings, accrued interest and commissions payable, accrued expenses:* The carrying amounts approximate fair value because of the short maturity of these instruments.
- *Held-to-maturity securities:* The fair values of held-to-maturity securities are based on quoted market prices at the reporting date for those or similar securities.
- *Loans:* The Corporation is one of the few institutions that offer loans for development in the stockholder countries. A secondary market does not exist for the type of loans granted by the Corporation. As rates on variable rate loans and loan commitments are reset on a semiannual basis, the carrying value, adjusted for credit risk, was determined to be the best estimate of fair value. The fair value of fixed rate loans is determined using the current variable interest rate for similar loans.
- *Equity investments:* The fair value of equity investments is determined based on financial statements of the investees or based on a financial analysis of the investees.

For additional information regarding the Corporation's determination of fair value, included items accounted for at fair value under SFAS N° 157, see note 18.

(20) Commitments and Contingencies

Commitments and contingencies include the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Credit agreements subscribed	2,610,482	1,668,981
Lines of credit	2,756,182	2,248,424
Letters of credit	10,508	24,654
Guarantees	<u>148,859</u>	<u>242,888</u>

These commitments and contingencies result from the normal course of the Corporation's business and are related principally to loans and loan equivalents that have been approved or committed for disbursement.

In the ordinary course of business the Corporation has entered into commitments to extend credit. Such financial instruments are recorded as commitments upon signing the corresponding contract and are reported in the financial statements when disbursements are made.

The contracts to extend credit have fixed expiration dates and in some cases expire without making disbursements. Also based on experience, parts of the disbursements are made up to two years after the signing of the contract. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

In the event the credit lines are not utilized, no additional cost is incurred by the Corporation.

Guarantees mature as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Less than one year	-	88,233
Over five years	148,859	154,655
	<u>148,859</u>	<u>242,888</u>

Guarantees result from the normal course of the Corporation's business and usually take the form of partial guarantees to CAF's clients, as a credit enhancement for their liabilities, as well as guarantees to third parties on behalf of the Corporation's clients. CAF's responsibility is usually limited to payment up to the amount of the guarantee upon default by the client. The carrying value of the guarantees at December 31, 2008 and 2007 is US\$2,189 and US\$10,892, respectively.

GOVERNING BODIES

Corporación Andina de Fomento

Shareholders' Assembly¹

The Shareholders' Assembly is CAF's highest authority. It meets in Ordinary sessions once a year, within ninety days following the end of the fiscal year; and in Extraordinary sessions, according to need. In both cases, it is convened by the Executive President. The Assembly is comprised of Series A, B and C shareholders. The Assembly approves Annual Report of the Board of Directors, the audited financial statements, and determines the allocation of net income. In addition, it elects Board members, according to the provisions set forth in the "Agreement establishing the Corporación Andina de Fomento", appoints the external auditors and examines other issues submitted to its consideration.

Board of Directors²

The Board of Directors is comprised of thirteen principal members and their alternates. Ten of its members are elected by Series A and B shareholders, for a three-year period, and may be re-elected. Series C shareholders have two principal directors and their alternates, while banks and private financial institutions within the Andean region, which are Series B shareholders, have one director and his/her alternate. The Board establishes the Corporation's policies, appoints the Executive President, approves credit operations, the annual budget, and approves guarantees, investments and other operations within CAF's mandate. Approvals of certain operations are delegated to the Executive Committee or the Executive President, according to criteria set forth by the Board. The Executive Committee meets with a quorum of at least six of its members.

Executive Committee

The Executive Committee was established by the Board of Directors in 1971. It is comprised of six directors designated by Series A, B and C shareholders, and is chaired by the Executive President. It approves financial operations within the limits established by the Board.

Audit Committee³

The Audit Committee was established by the Board of Directors in July, 1996. It is comprised of six members: the Chairman of the Board, four directors elected by the Board for a two-year period, and CAF's Executive President. It recommends the selection of external auditors and reviews their annual work program. It also reviews the Institution's annual report and financial statements, with the corresponding auditors' opinion, before their submission to the Board and Shareholders Assembly, the Internal Audit Reports on the structure of internal control systems; the annual portfolio risk management program and the annual report of its implementation.

Executive President

The Executive President is CAF's legal representative. As CEO, he is in charge of the Institution's overall supervision and management, as well as all matters which are not specifically entrusted to any other governing body. Likewise, he approves CAF's country and sector strategies, decides on organizational and procedural issues under his authority, and authorizes the Institution's financial operations within the limits delegated to him by the Board of Directors. The Executive President is assisted by an Advisory Council composed of experts from the economic, business, and financial communities of the region, whose main task is to support the President in the analysis of CAF's strategic objectives. The Executive President is appointed for a five year period, and may be re-elected.

1 The XXXIX Ordinary Shareholders' Meeting was held on March 25th, 2008, and the XI Extraordinary Shareholders' Meeting.

2 During 2008, three Board of Directors Meetings were held: March 25th, July 10th, and December 2nd.

3 The XV Audit Committee was held on March 28th.

BOARD OF DIRECTORS(as of December 31st, 2008)Chairman of the Board (2008-2009)¹

Luis Miguel Valdivieso Montano

Minister of Economy and Finance

Series A Shareholders**BOLIVIA**

Principal: Carlos Villegas

Minister of Development Planning

Alternate: Javier Fernández Vargas

Vice-Minister for Public Sector Investment and External Financing

PERU

Principal: Luis Miguel Valdivieso Montano

Minister of Economy and Finance

Alternate: José Berley Arista Arbildo

Vice-Minister Finance

COLOMBIA

Principal: Oscar Iván Zuluaga

Minister of Finance and Public Credit

Alternate: Luis Guillermo Plata

Foreign Trade Minister

VENEZUELA

Principal: Alí Rodríguez Araque

The Power of the People's Economy and Finance Minister

Alternate: Haiman El Troudi

The Power of the People's Minister of Planning and Development

ECUADOR

Principal: Camilo Samán Salem

Chairman of the Board of the National Finance Corporation

Alternate: Xavier Abad Vicuña

Minister of Industry and Competitiveness

Series B Shareholders**BOLIVIA**

Principal: Luis Alberto Arce

Finance Minister

(COFIDE)

Alternate: Roger Edwin Rojas Ulo

Vice-Minister of Treasury and Public Credit

PERU

Principal: Luis Rebolledo S.

Chairman of the Board of the Financial Corporation for Development

Alternate: Eduardo Morón Pastor

Vice-Minister of Finance

COLOMBIA

Principal: José Darío Uribe

General Manager of Banco de la República

Alternate: Carolina Rentería

Director of the National Planning Department

VENEZUELA

Principal: William A. Contreras

The Power of the People's Minister for Light Industry and Trade

Alternate:

ECUADOR

Principal: María Elsa Viteri

Minister of Economy and Finances

Alternate: Miguel Ruiz

Member of the Board of Directors of the Central Bank of Ecuador

Series C Shareholders**ARGENTINA**

Principal: Martín Abeles

Secretary Economic Policy. Ministry of Economy and Production

COSTA RICA

Alternate: Francisco de Paula Gutiérrez

President of the Central Bank of Costa Rica

BRAZIL

Principal: Alexandre Meira da Rosa

Secretary for International Affairs.

Ministry of Planning, Budget and Management

SPAIN

Principal: Pedro Solbes Mira

Second Vice-President of the Government and Economy and Finance Minister

¹ Until March 2008, Fausto Ortiz, Ecuador's Minister of Economy and Finance, was the Chairman of the Board. Until July 2008, Luis Carranza, Peru's Minister of Economy and Finance, was the Chairman of the Board.

Private Bank

Principal: Juan Emilio Unzueta

President of Banco Mercantil Santa Cruz de Bolivia

Alternate: José Elías Melo Acosta

President of Corficolombiana, S.A. de Colombia

EXECUTIVE MANAGEMENT(as of December 31st, 2008)**President and Chief Executive Officer** L. Enrique García**Executive Vice President** Luis Enrique Berrizbeitia**General Advisor** Luis Sánchez Masi**Chief Legal Counsel** Ricardo Sigwald**Corporate Comptroller** Marcelo Zalles**Director, Risk Management** Marcia Arliani**Director, Internal Audit** Martha Diez**Chief Credit Officer** Stephen Foley**Director, Special Assets** Renny López**Head of Public Policy and Competitiveness Office** Luis Miguel Castilla**Director, Competitiveness Programs** Germán Ríos**Director, Research** Pablo Sanguinetti**Chief Human Resources Officer** José Bellido**Director, Human Resources Operations** Corina Arroyo**Director, Human Resources Planning** Leopoldo Gómez**Chief Technology and Operations Officer** Luiz Amato**Director, Operations Control** Germán Alzate**Director, Information Technology** Esteban Cover**Director, Secretariat and Corporate Communications** José Luis Ramírez**Corporate Vice President, Country Programs** Lilliana Canale**Director, Regional Programs** Alexis Gómez**Director, Governance and Technical Cooperation** Elvira Lupo**Director, Country Operations****Director, Argentina** María Ángela Holguín**Assistant Director, Argentina** Rolando Terrazas**Director, Bolivia** Emilio Uquillas**Director, Brazil** Moira Paz**Director, Colombia** Freddy Rojas**Director, Ecuador** Luis Palau**Director, Panama** Rubén Ramírez**Director, Perú** Eleonora Silva**Assistant Director, Peru** Ricardo Campins**Director, Spain** Germán Jaramillo**Corporate Vice President, Infrastructure** Antonio Juan Sosa**Director, Projects** Manuel Llosa**Director, Sectorial Analysis and Programming** Francisco Wulff**Corporate Vice President, Corporate Finance and Investment Banking** Peter Vonk**Director, Structured Financing** Carmen Elena Carbonell**Director, Corporate Banking** Víctor Loero**Director, Financial Advisory Services** Ignacio Fombona**Corporate Vice President, Financial Systems****Director, Financial Institutions and Capital Markets** Félix Bergel**Director, SMEs and Microfinance** Manuel Malaret**Corporate Vice President, Social and Environmental Development** José Carrera**Director, Social Development** Bernardo Requena**Director, Environment** María Teresa Szauer**Director, Social Sustainability** Ana Mercedes Botero**Corporate Vice President and Chief Financial Officer** Hugo Sarmiento**Director, Financial Policies and International Issues** Gabriel Felpeto**Director, Multilateral and Bank Financing** Fernando Infante**Director, Treasury** Alfonso Machado**Director, Accounting and Budget** Marcos Subía**Director, General Services** Jaime Caycedo

PRODUCTS AND SERVICES

CAF activities are aimed at supporting sustainable development and regional integration among its shareholder countries. As a multilateral source of financial resources, the Institution attracts funds from international markets to Latin America, with the objective of promoting investment and trade opportunities in the region.

Likewise, CAF provides resources generally non-reimbursable, for a series of special programs that support its mission in the framework of its Agenda for Comprehensive Development. These funds are devoted to socioeconomic development in shareholder countries, through the financing of operations that contribute to improving the competitiveness of their economies, the development of infrastructure, physical integration, the promotion of micro-, small and medium-sized businesses, the strengthening of financial markets, the development of human capital and the reform and modernization of states.

The Institution offers financial products and services to shareholder states and public, private and mixed capital companies based in shareholder countries.

Support for the private sector

The private sector has a direct impact as a wealth creator, a generator of employment and a promoter of trade and markets. Companies also have a key multiplier role in education and technology transfer. CAF promotes the participation of the private sector in investment projects in the productive sectors of shareholder countries. In addition, the Institution offers advice on governance, corporate governance and the promotion of corporate social responsibility, which also requires the active participation of the sector, and structures physical integration projects in such a way as to include private sector participation, on account of the large capital investments involved in infrastructure developments. It offers direct assistance through traditional term loans and indirect assistance through partial cover guarantees for government obligations in the underlying transactions or part-financing. An example of CAF's activities in this regard is the advice given on the structuring of concessions in the framework of Peru's Inter-Oceanic Roads project, which was successfully financed by the private sector.

The products and services offered by CAF are mainly aimed at supporting the implementation of its Agenda for Comprehensive Development and its special programs. They include a series of financial tools designed to meet clients' requirements and market opportunities, under the following headings:

Loans

Loans represent CAF's main financing tool. They are employed in investment projects and activities corresponding to the Institution's corporate mission.

Project financing

Project Financing loans are allocated to develop and execute projects in road transportation, telecommunications, water and environment, border development and the physical integration of shareholder countries. CAF also provides financing to corporate projects in the industrial field, to enhance and renovate productive capacity and to insert businesses into regional and global markets.

Credit lines

Credit lines allow the Institution to offer maximum resources for a given period without an express commitment to the client.

Project structuring and financing

CAF actively participates in the financing of projects structured with limited guarantees (limited recourse lending). This category is mainly utilized for the financing of BOO (Build, Operate and Own) operations in the infrastructure sector, generally arising from concessions granted by governments, or to finance oil and gas, mining and other extractive projects.

Co-financing

Co-financing is a type of loan that complements financial resources provided by CAF and attracts external capital to the region. Through these instruments, the Institution grants the A portion of the loan using its

own resources, while distributing the B portion among international banks and institutional investors. In addition, CAF co-finances operations with other multilateral organizations, such as the Inter-American Development Bank, the World Bank, the International Investment Corporation, the Nordic Investment Bank, the International Finance Corporation and the International Fund for Agricultural Development, as well as with official bodies and local and international private banks.

Guarantees

Guarantees are used by the Institution to back up credit operations approved by other sources for governments, businesses and financial institutions.

Partial Credit Guarantees

Partial Credit Guarantees (PCG) are financial instruments through which a portion of the credit risk of a client's obligation is guaranteed to a third party. Through this mechanism, CAF attracts fresh resources to the region and stimulates the activities of private financial sources by offering conditions that would otherwise not be available.

Financial advice

The Institution provides financial advice to public and private sector clients. Among other services, CAF offers advice in: i) the definition and structuring of financial plans for projects and companies; ii) the design and implementation of public bid processes to delegate the private sector the construction, operation and administration of infrastructure and public service works, such as public private partnerships and concessions; iii) preparation of private sectors offers to participate in public bid processes; iv) mergers and acquisitions; and v) valuations.

Public-Private Participations

CAF actively participates in the structuring of financing operations with the private sector, in order to overcome the shortage of funds available to finance infrastructural projects. Through this participation, CAF contributes to the process of financial engineering needed to structure this type of operation, offers advice to the parties involved, and promotes the development and strengthening of capital markets.

Treasury services

Treasury services include deposits via the money desk, from overnight to 12 months, offered by CAF to shareholder countries.

Equity investments

Equity investments are capital investments utilized by CAF to support business development in shareholder countries and their access to capital, as well as to attract resources to the region.

Cooperation funds

CAF uses cooperation funds to finance specialized operations that complement the existing technical capacity of shareholder countries, to promote special programs that contribute to sustainable development and regional integration. These funds may be reimbursable, non-reimbursable or conditional recovery, depending on the nature and purpose of the operation.

Cooperation funds are primarily intended to support reforms related to state modernization processes, such as privatization, administrative decentralization and institutional fortification. They also contribute to export and investment plans, the development and integration of the region's financial and capital markets, technology transfer and adaptation, environmental protection, social development and the promotion of cultural values.

CAF also administrates and supervises funds, mostly non-reimbursable, belonging to other countries and bodies, which are devoted to financing programs agreed with donor bodies and in accordance with the policies and strategies of the Institution.

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