

A N N U A L R E P O R T



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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 15 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.

(in millions of USD)	2007	2006
Total assets	12,597	10,439
Liquid assets	2,458	1,931
Investment and loan portfolio	9,622	8,191
Paid-in capital	2,015	1,871
Total shareholders' equity	4,127	3,693
Net income	401	321

Highlights

Expansion of CAF's

Latin American dimension

- The amendment of the Agreement establishing Corporación Andina de Fomento enables the incorporation of new countries as full members –a right initially granted to the founding shareholder countries of the Andean region–. The decision strengthens the presence of Latin American countries in the Corporation, and enhances the implementation of CAF's Agenda for Comprehensive Development.
- In this context, the Corporation signed agreements with Argentina, Brazil, and Uruguay that will translate into new capital contributions for approximately USD 1,200 million, and subscriptions to the guaranteed capital close to USD 300 million, leading to the transition of these countries from Series C shareholders to full members and shareholders of the Series A and B.
- Within the framework of the XVII Ibero–American Summit of Heads of State and Government held in Chile, this country –through Corporación de Fomento (CORFO)–increased its shareholding by USD 50 million. The agreement reaffirmed its commitment to Latin American integration, and its intention to become more engaged in regional issues while potentially projecting the region towards the Pacific Basin.
- Likewise, in a visit to CAF's head office, Guatemala signed a Letter of Intent whereby this country addressed its intention of becoming a Series C shareholder.

Enhanced international presence

- Outside the region, CAF established an office in Madrid, seeking to consolidate its presence and enhance its relationships, not only with the Kingdom of Spain –CAF's shareholder since 2002–, but also with the rest of Europe. The action reaffirmed CAF's profound commitment with regional integration, and opened an important space for European investment towards the region.
- Likewise, within the framework of the III Italy–Latin American and the Caribbean Conference, CAF signed a Letter of Intent with Italy for its incorporation as a Series C shareholder.
- The Corporation also signed agreements with the China Development Bank and the Import Export Bank of India, reaffirming its interest in establishing strategic alliances that strengthen the development of Latin America.

Record operations

- During 2007, CAF registered records levels of approvals and disbursements for USD 6,607 million and USD 5,844 million, respectively, mainly aimed at financing medium– and long–term projects, granted to both the public and private sectors of the economy.
- The Corporation also registered a new high in its loan portfolio that amounted to USD 9,622 million, that is, an 18 percent increase over the level observed the previous year.
- CAF also approved close to USD 50 million in non–refundable cooperation funds, to support member countries in the promotion of an Agenda for Comprehensive Development.
- The Corporation continued its strong support to the areas of economic infrastructure and social development. In addition, it substantially increased the resources granted directly to the corporate sector, as well as to Micro, Small and Medium-sized Enterprises, particularly through financial intermediaries.

Outstanding role in regional integration processes

- CAF reaffirmed its commitment to strengthening ongoing regional integration processes, and contributed to the consolidation of integration initiatives.
- During the year, the Corporation defined and implemented work programs with various organizations and forums, and played an important role in the integration and consensus agendas at the subregional, regional and hemispheric levels.
- Likewise, it maintained an active participation in the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), supporting the implementation of priority regional integration projects. Support was granted to finance pre-investment studies to more than 30 projects with non-refundable contributions for close to USD 10 million through the Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra). CAF has financed forty-six physical infrastructure projects that represent around USD 4,500 million of a total investment of approximately USD 13,000 million.
- At the same time, it continued supporting the regional articulation proposal of the Puebla-Panama Plan (PPP) as a member of the Inter-Institutional Technical Group created by the presidents of *Mesoamérica*.
- Additionally, the Corporation advanced its strategic vision of border integration, promoting more than 12 bilateral and multilateral initiatives through its Cross-Border Integration and Development Program.

Definite impulse to the Agenda for Comprehensive Development

- Throughout the year, CAF continued promoting social inclusion and mobility, approving investments in the social and environment areas for USD 1,271 million, equivalent to almost 20 percent of total approvals.
- Additionally, it designed and implemented innovative competitiveness projects in the areas of enterprise association, promotion of entrepreneurship, improvement of the business environment, and dissemination of best practices in corporate governance. Regarding the latter, it is worth noting the subscription of a declaration of commitment along with 30 international development banks.
- CAF also contributed to the debate and discussion of public policy options in order to generate and disseminate knowledge through the design and implementation of an applied research agenda. It is worth noting the launch of the fourth edition of its Economic and Development Report entitled “Opportunities in Latin America: toward a better social policy”; the publication of “CAF’s Environmental Strategy”, that defines the Corporation’s commitment to environmental issues; and its contribution to the discussion of the main educational issues in the region through specialized publications.

Excellent financial performance

- CAF had an excellent financial performance during 2007, as shown by its main financial ratios: the quality of the loan portfolio, the levels of profitability achieved, and the efficient management of administrative expenses.
- This enabled new recognitions from credit rating agencies, that highlighted its credit quality and franchise value in the region, reaffirming the Corporation as the frequent Latin American issuer with the highest credit ratings. In fact, Standard & Poor’s raised CAF’s long-term debt credit rating from “A” to “A+”.
- In addition, the Corporation maintained an active presence in international financial markets, particularly in the Latin American region, in order to promote their development and diversification. CAF successfully placed two bond issues in the Venezuelan market and registered its first bond issue in Mexico. In addition to local issues, the Corporation maintained a relevant presence in the traditional financial markets of the United States, Europe, and Japan.





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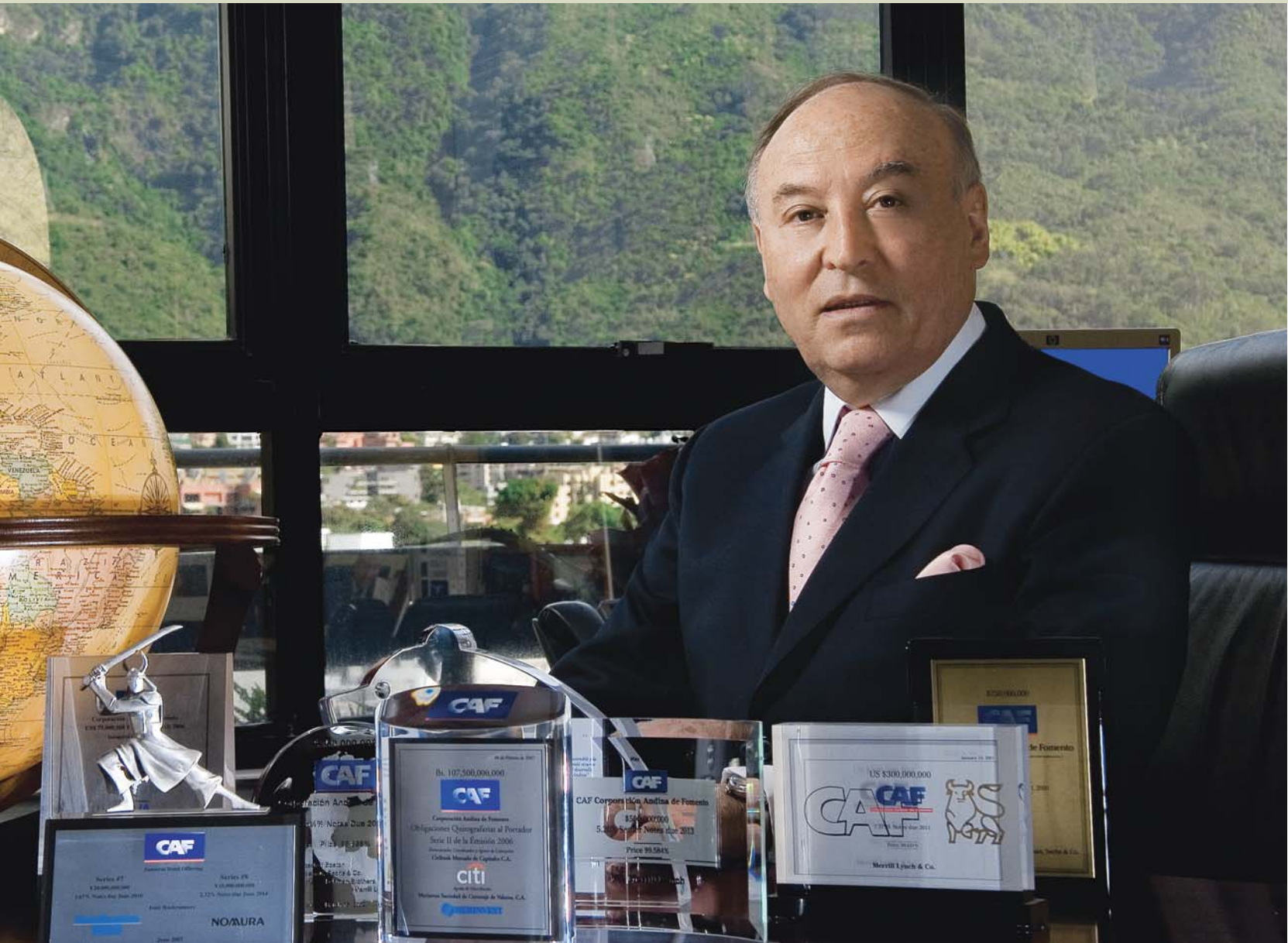
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IT IS A PLEASURE TO PRESENT THE ANNUAL REPORT and audited financial statements for the year 2007.

For the fifth consecutive year, Latin America exhibited a highly satisfactory economic behavior, as shown by the main performance ratios, notwithstanding the downfall in the global economy during the second half of the year. Undoubtedly, the region is better prepared today to respond to the challenges of the new international business cycle.

CAF's performance was noteworthy in 2007. The Corporation registered record figures in approvals and disbursements, achieved significant increases in both its loan portfolio and the allocation of non-reimbursable cooperation resources, consistent with the Institution's strategic orientation to support sustainable development and regional integration.

The year was particularly relevant for the expansion of CAF's Latin American dimension. In fact, the Corporation signed agreements that will translate into new capital contributions from Argentina, Brazil, and Uruguay, leading these countries' transition from Series C shareholders to full members and shareholders of the Series A and B. Likewise, Chile increased its capital contribution to the Series C, and other countries advanced in their negotiations to become full members and/or increase their shareholdings in the Corporation.

In addition, CAF maintained an important presence outside the region aimed at strengthening its catalytic role. Thus, it established its first office in Europe, headquartered in Madrid; signed an agreement to incorporate Italy as shareholder; and strengthened relations with financial institutions from China and India.

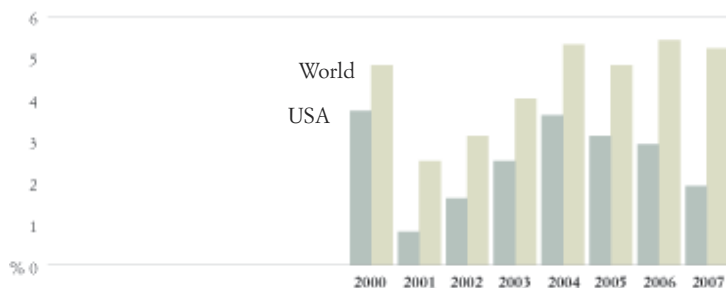
As can be gathered from the audited financial statements, the Corporation had an excellent performance, as shown by its main financial ratios. This enabled a new recognition from the rating agencies and consolidated CAF's presence in international capital markets under highly competitive conditions.

I would like to thank our shareholders, Board members, and employees for their support. The results achieved reaffirm CAF's profound commitment to sustainable development and regional integration.



L. Enrique García
Executive President

Graph N° 1
GDP Growth



Source: World Economic Outlook (WEO), October 2007

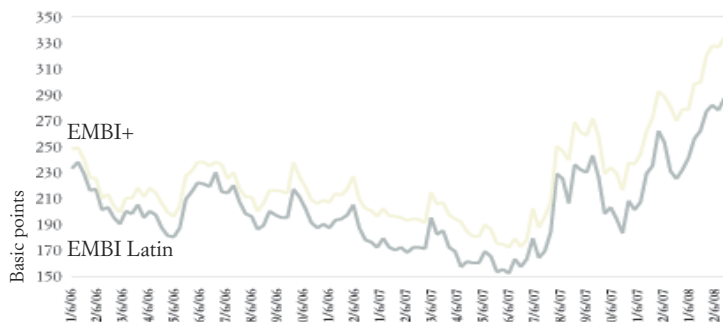
2007 BROUGHT SIGNIFICANT CHANGES to global economic conditions. The turbulence experienced by financial markets due to the real estate crisis in the United States slowed the growth of the world economy. Yet, in spite of this context, Latin America continued growing due to better domestic conditions that compensated, in part, for the loss of impulse from external demand. For 2008, it is expected that the global economy will continue to slow down, but there are possibilities for recovery during the second semester due to the economic policies adopted by some industrialized countries, especially the United States. This will be an important test for Latin America, as an improved economic base should help mitigate the negative effects of changes in the global environment.

International environment

The global economy seems to have reached a turning point in 2007. In fact, the international business cycle is undergoing a transition with a slowdown in activity in most industrialized economies. Even though this slowdown has been partly compensated by a robust expansion of emerging market economies, this expansion has lost momentum due to the worsening performance of exports, a consequence of the declining growth rate of global demand. Nevertheless, domestic demand continues to be strong in developing countries and, combined with intra regional trade, translates into a strong expansion of the economies of Asia, Eastern Europe, Latin America, and the Middle East.

National accounts data confirm that the U.S. economy slowed significantly toward the end of 2007, as problems in the real estate market extended to the rest of the economy. Additionally, a reduction

Graph N° 2
Emerging Markets Bond Index: EMBI+ y EMBI Latin



Source: Bloomberg.

in employment points to a decrease in the dynamism of the U.S. economy during the first semester of 2008.

The combination of a weak labor market, credit market restrictions, declining housing prices, and high fuel prices has negatively affected consumption expenditures in the United States. In this environment, the real estate market in the United States continues to face difficulties as mortgage payment defaults increase and construction stagnates.

On the positive side, economic policymakers in the United States are committed to the implementation of specific fiscal incentives, complementing the aggressive monetary easing of the Federal Reserve System. These policy measures should contribute to boost the economy during the second semester of 2008. Although these measures probably will not be enough to prevent a recession, they could contribute to shortening it. In this scenario, it is expected that the trade weighted value of the U.S. dollar will continue to decline in the coming months, albeit at a slower rate than 2007.

Although the U.S. is at the epicenter of the global economic and financial turbulence, the aftershocks of the deceleration have been felt around the world. Thus, the Japanese economy also faces a scenario of possible (although mild) recession in 2008. Likewise, European economic growth has lost steam due to, among other factors, the strength of the Euro and global credit restrictions, which have negatively affected exports, production, and investment. The world financial system has been under pressure by continuing instability in credit markets, generated by the sub-prime crisis. Although monetary easing has contributed to the reduction of spreads between money market rates and the corresponding central bank reference rates in

Graph N° 3
Equity markets



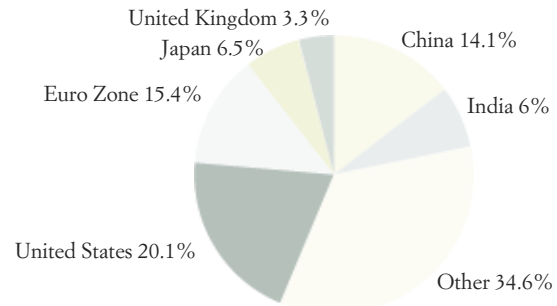
Source: Bloomberg.

some countries, credit conditions have remained tight in many segments of the market. The combination of stricter rules for loans and higher borrowing costs probably will translate into lower credit growth over the medium term.

Volatility in financial markets has deepened as the sub-prime crisis has increased risk aversion. Even though a large part of the recent turbulence seems to be driven by “herd-type” behaviors and not by changes in fundamental variables, it is probable that the deceleration in the United States will exacerbate the volatility in the financial markets during 2008. Although microeconomic and productivity elements in the corporate environment have been relatively solid, the contraction of the global asset markets could intensify in view of the likely decline of profits and increased capital losses. Likewise, it is possible that lending interbank rates will increase because the banks continue to demand higher risk premiums. The rate increase could be transferred to clients, negatively affecting both business and consumer confidence.

In fact, global confidence has weakened, more pronouncedly in the United States and Europe than in South America and the Asia-Pacific region, probably as a reflection of the divergence in economic activity in these regions and the different levels of exposure to the U.S. sub-prime market. Nevertheless, during the next few months the persistent uncertainty regarding the fragility of the U.S. economic situation will continue to weigh on business confidence around the world. Because corporate expectations are an important indicator of future investment, businesses will probably postpone some expansion initiatives or adjust their payrolls downward.

Graph N° 4
Participation of the economies in the global GDP (PPP) 2001–2007



Source: World Economic Outlook (WEO), September 2007; own elaboration.

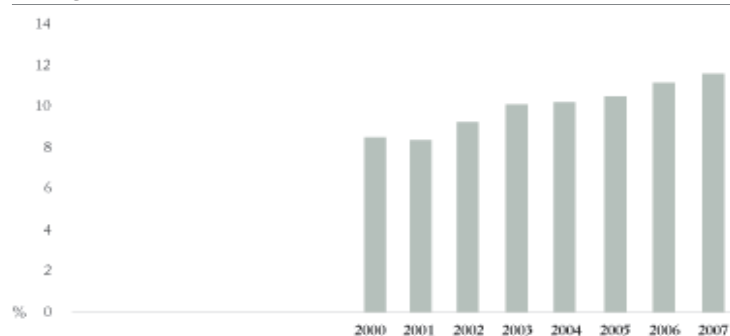
Lower employment growth could also negatively affect consumer expectations. Consumer confidence indexes in most countries have declined due to the combination of a rising cost of living and a lower rate of asset appreciation (in some cases even depreciation). Additional losses in business and consumer confidence at a global level constitute important threats to the growth prospects of the world economy.

During the last decade, the solid expansion of developing economies has radically changed the global economic scenario. Expansion in Brazil, China, India and other Asian and Latin American countries, combined with an increase of intra regional trade has resulted in a more equitable distribution of world economic activity. The close correlation between the United States and global growth seems to have weakened in the last years with the appearance of new growth engines. As a result, the global economy seems to have been able to avoid the deceleration witnessed in the United States economy.

Nevertheless, the loss of momentum in the United States will have important collateral effects on both trade and financial channels. A reduction in consumption expenditures combined with a weak dollar suggests that the United States' demand for imports will lose momentum. Although most of the world economies have experienced greater trade diversification in recent years, they still maintain substantial trade ties with the United States. Countries with a larger exposure to United States economic activity, such as Canada, Mexico, Central America, and several countries of the Association of South East Asian Nations, will feel the consequences more directly.

In recent years, many economies have begun to aggressively penetrate the Chinese market. Changes in global production chains

Graph N° 5
GDP growth in China



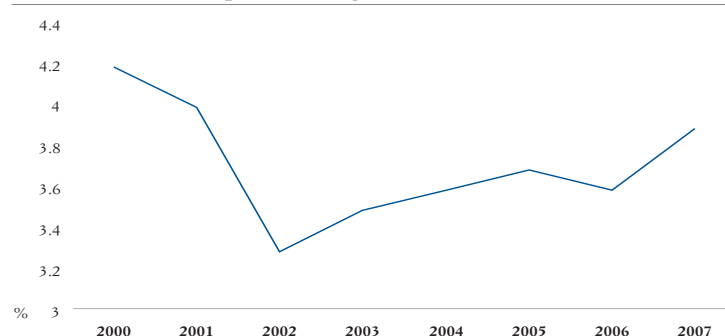
Source: World Economic Outlook (WEO), October 2007.

have allowed China to become one of the main importers of assembly components for re-export to the United States and other developed markets. Therefore, a slowdown of the U.S. economy will necessarily have a negative impact on the Chinese demand for intermediate components and raw materials. Thus, China could experience contagion from a possible United States recession, and the hypothesis of the decoupling of the United States from the rest of the world would be put to test.

Although a decline in consumption demand in the United States could weaken China's momentum in 2008, it will continue to grow strongly. Additionally, the global deceleration could bring to light some issues related to industrial over-utilization that will need to be addressed by economic policymakers. The change in the global environment seems to indicate that the Chinese expansion has reached its peak, and the combination of a deceleration in export demand and the possibility of a more restrictive monetary policy could moderate the growth of China's Gross Domestic Product (GDP) in 2008.

Other emerging economies will also lose momentum in 2008, even though growth will continue to be strong due to employment and salary increases that, together with strong local currencies, will support consumption and soften the impact of the reduction in external demand. These developing economies, seem more solid fiscal positions than in the past, and seem to be better prepared to face a global deceleration. Additionally, many of these countries have taken advantage of their bonanza to accumulate international reserves and improve their debt profiles, which could reduce the impact of a larger external shock in the future.

Graph N° 6
World inflation rate (period average)



Source: World Economic Outlook (WEO), October 2007.

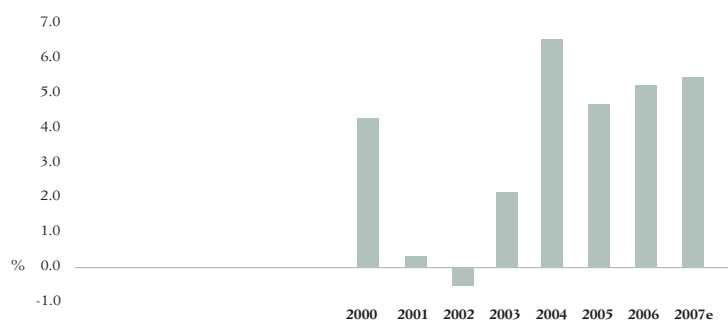
The biggest risk confronted by the global economy is a greater than expected deceleration in the United States. In addition to affecting international trade and investment flows, increased difficulties in the U.S. could exacerbate world financial instability. More restrictive global credit markets would translate into higher capital costs, which could reduce employment and plans for capital expansion in businesses, restricting domestic demand even more.

The situation in China could also become an important hazard. The possible cyclical deceleration in this country in 2008 could clearly affect global growth. Strong growth rates and competitiveness gains in other emerging economies such as Brazil, India, and Russia could mitigate the possible risks associated with the loss of momentum in the U.S and Chinese economies, in terms of the potential demand for the global economy in 2008.

One issue that should be kept in mind is the flare up of inflationary pressures across the world in 2007, mainly as a result of increases in food and fuel prices. Although these prices are expected to remain high in 2008, the deceleration of global demand coupled with an increase in the supply of these items could contribute to moderating prices (if no important political or climatic turbulences intervene to interrupt the supply). Nevertheless, because food and fuel represent an important part of the average family budget, inflation could have an impact on the salary structure as workers try to compensate for the reduction in purchasing power, which could result in a price and wage spiral in some countries.

In summary, although the global economic outlook will be less favorable in 2008, the fact that world growth is better balanced will contribute to mitigate the negative effects on emerging economies. The mo-

Graph N° 7

Latin America: Real growth of GDP

Source: CAF.

mentum in these countries, among which there are several from Latin America, will help compensate for the deceleration in the United States and the possible moderation of growth in China.

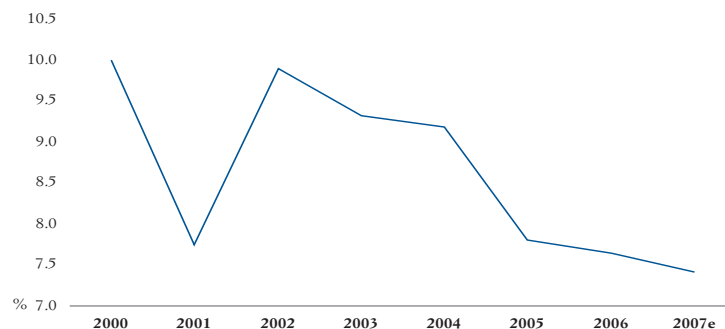
Latin America

In spite of the recent international financial markets crisis described earlier, Latin America's results were positive in 2007. The persistence of favorable external conditions sustained positive dynamics in the export sector, while the growth of domestic demand (consumption and investment) consolidated as the main engine of economic expansion. In fact, the region grew 5.4% in 2007 and it is expected that GDP growth in 2008 will be 4.5%.

In addition, contrary to previous high growth episodes, the region currently has a more solid economic base that will allow it to better resist the risk of negative external shocks. In this sense, current account surpluses, greater fiscal discipline, adequately capitalized financial systems with lower default indexes, reduced presence of short-term foreign capital, lower foreign debt levels, and a strong accumulation of foreign assets should be highlighted.

Moreover, the economic growth in previous years continues to have a positive influence on the region's social indicators. Latin America has shown an important improvement in per capita income levels and employment, and a decrease in poverty. Nevertheless, social welfare is far from satisfactory and inequality levels continue to be the highest in the world. Notwithstanding the reduction in unemployment rates, these are still higher than in regions such as Central and Eastern Europe and East Asia, and informality in the region remains at persistently high levels.

Graph N° 8

Latin America: urban unemployment rate

Source: CAF.

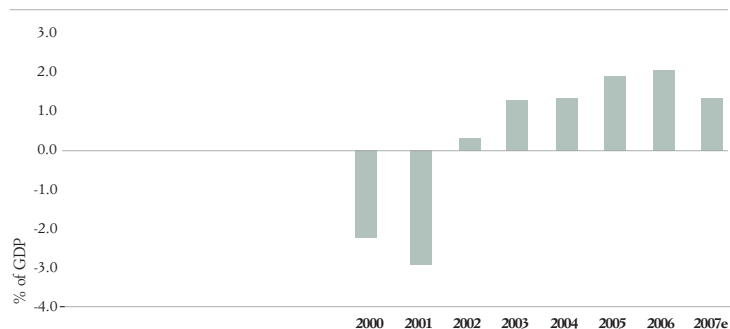
For these reasons, social issues continue to command the highest priority in the public policy agenda of countries of the region. To translate the resources dedicated to poor sectors into significant improvements in social indicators, there needs to be greater targeting and improved quality, relevance, and management of social expenditures.

Regarding the external sector and in spite of the turbulence in international markets in 2007, the growth of global demand remained relatively stable. This international environment has translated into very favorable terms of trade for the region, which have in turn contributed to the generation of a significant trade balance surplus. Some countries have used this opportunity to improve their debt profile and increase their international reserves, while mitigating in part the impact of currency appreciation on non-traditional exports.

In addition to the positive terms of trade effect, the current accounts of several countries have also been favored by increased remittances, although these could be affected by the deceleration in the United States. On the other hand, in some countries, the capital account shows important foreign direct investment flows, while the medium- and short-term flows were not significantly impacted by the instability of global financial markets.

Although it is expected that in 2008 the region will continue to show positive results in its current account, the most probable scenario points toward a reduction of surpluses as a consequence of an increase in imports and slower growth in the world economy. It is also safe to assume a lower inflow of private capital in a less favorable international environment with greater risk aversion.

Graph N° 9

Latin America: current account/GDP

Source: CAF.

In regard to prices, in spite of strong demand pressures, most of the countries have maintained one-digit inflation rates, although inflationary pressures are beginning to emerge. In some countries, the comeback of inflation is a result of a disequilibrium between domestic demand and supply, while in other cases it is due to the increase in prices of energy and some foodstuffs in international markets.

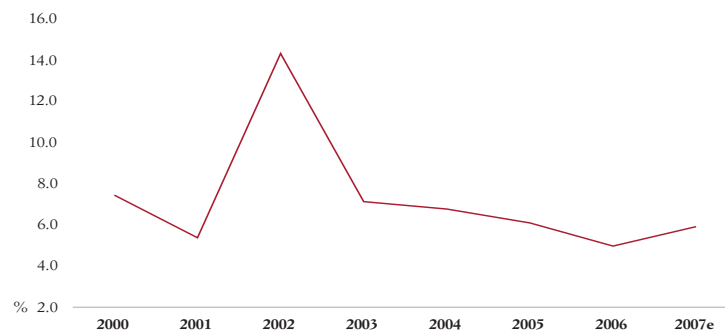
In this context, central banks, particularly those that follow inflation targeting, have increased their interest rates thereby contributing to the recent trend of appreciation of Latin American currencies. At the same time, credit to the private sector, in an environment of adequately capitalized financial systems and good quality portfolios, has resulted in significant growth rates for most countries of the region.

In the past few years Latin American countries have consolidated their fiscal positions, a trend that was maintained in 2007 and is expected to continue in 2008. In spite of an increase in public expenditure, due to both investment and current spending, fiscal income has grown at a faster pace, which has translated into a reduction of fiscal deficits and of public debt levels. In addition, there have been continued efforts to improve the debt profile, contributing to reduce the external vulnerability of countries in the region and encouraging the development of domestic capital markets.

Nevertheless, it is important to point out that although public accounts look sustainable in most countries of the region, there are some cases in which the favorable fiscal balance could depend on current economic trends or cycles, which could signal an underlying vulnerability if external and internal conditions should suddenly change.

While there are reasons to be optimistic regarding Latin America in the next two years, there are risks that could affect the development

Graph N° 10

Latin America: inflation (end of the period)

Source: CAF.

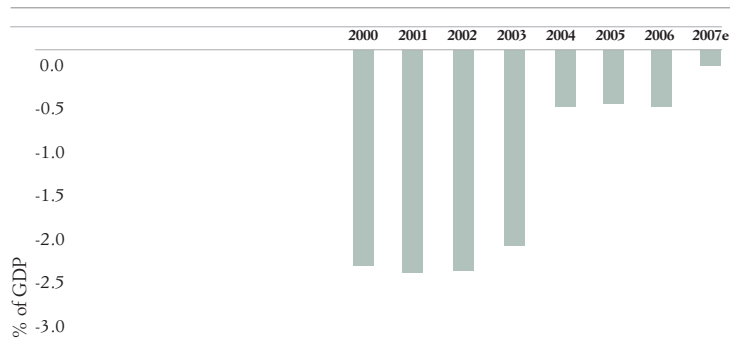
of the region that merit a call to caution. First, as discussed earlier, industrialized economies could undergo a higher than expected reduction in their growth rates, which would affect the region unevenly. Second, not all of the economies are equally prepared to face an external crisis.

In fact, a deceleration of trade flows between the United States and the region, and a reduction of remittances would have a greater impact on Mexico and Central America than in South America. Nevertheless, the possibility of a global recession which would imply a considerable reduction in the prices of raw materials would have a more significant effect on the countries that export those products, in particular, the Andean nations. Additionally, not all the countries in the region have been able to accumulate external assets at the same pace, leaving some of them more vulnerable to external shocks.

On the other hand, accelerated growth can be another source of risk. Several analyses and estimates show that since 2004 the region has expanded at rates that exceed the estimates of its potential growth (4%). This has created concern about a possible overheating of the economy that could translate into inflationary pressures or a deterioration in the current account as a result of a large increase in imports. Nevertheless, the situation is uneven among countries and only some economies show symptoms of potential overheating.

The favorable situation also obscures the presence of structural microeconomic problems that adversely affect competitiveness, the business environment, labor markets, and institutional performance. At the same time, there is a tremendous need for investment in infrastructure. These factors have had adverse consequences on the region's growth and, particularly, on productivity and the rise of new activities. According to the most recent World Economic Forum's

Graph N° 11

Latin America: overall fiscal outcome/GDP

Source: CAF.

Global Competitiveness Report, several Latin American countries have fallen in their relative position in the international competitiveness index for growth.

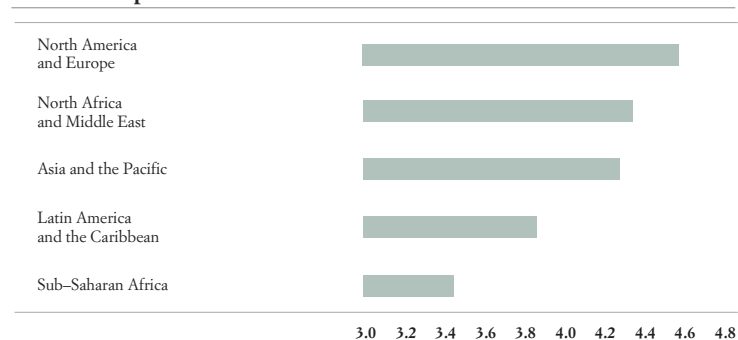
The change toward a less favorable international scenario will be an important test of the strength of economic foundations in Latin American countries. There is still a window of opportunity for a more profound improvement of social conditions and indicators in Latin America, but it could close if the global economy deteriorates more than

Regional integration

During 2007, Latin American countries maintained their commitment to deepen regional integration and promote high quality integration in the international economy. However, in the multilateral arena, global trade liberalization has reached a standstill due to the suspension of the Doha Development Round of the World Trade Organization (WTO). Member countries have continued their conversations in an effort to reach an agreement on agriculture that will allow negotiations to continue. In this context, the countries of the region have concentrated on reaching bilateral agreements and deepening existing treaties. It is important to point out that this strategy does not substitute for a multilateral agreement, because some topics relevant for Latin America are not included, such as agricultural subsidies. Therefore, it is of key importance to promote the advancement of the multilateral route.

In spite of the difficulties to reactivate the Doha Development Round, progress has been made in the Aid for Trade program promoted by the WTO aimed at achieving a greater mobilization of offi-

Graph N° 12

Global Competitiveness Index*

Source: World Economic Forum (WEF) 2007–2008.

*The index is measured in a range of units that go from 0 to 7, where the highest value corresponds to a better index.

expected. Nevertheless, it is still a good moment to tackle some of the microeconomic problems embroiling Latin America, particularly improving productivity and competitiveness, especially by developing financial systems, reducing the steps needed to create a business and increasing their transparency, and the reconversion of the productive sector. These measures will contribute to strengthen the conditions for growth in Latin American countries and will make them less vulnerable to changes in the global environment.

cial resources to increase the trade capacity and infrastructure needed to boost participation in global trade of developing countries. The “Mobilizing Aid for Trade: Focus Latin America and the Caribbean” meeting, which took place in September of 2007, highlighted the importance of having a wide range of trade strategies that go beyond the simple opening up of markets and which require greater financing flows. The meeting highlighted the need to increase the supply of regional public goods such as transportation infrastructure, as well as improve the trade facilitation norms and procedures.

In recent years, one of the principal strategies of some countries of the region to increase their presence in the world economy has been the negotiation of Free Trade Agreements (FTAs) with the United States. In part, this has been due to the freezing of the Free Trade Area of the Americas (FTAA) process and the deadlock of the multilateral negotiations in the WTO. Nevertheless, the majority obtained by the Democratic Party in the United States Congress has complicated the ratification process of the FTAs negotiated during the Presidency of George W. Bush. Thus, the FTA between Peru and

From left to right:
CAF-Competitiveness
Network Meeting, Lima
May 11.
International Seminar
“Good Corporate
Governance in
Practice”, Quito,
March 29.



the United States was finally ratified by the United States Congress in 2007, only after the inclusion of special clauses to protect the environment and labor rights. The FTAs between the United States and Panama and Colombia have yet not been ratified and it is probable that their ratification will be postponed until 2009 due to the presidential elections in the United States in 2008.

The uncertainty over the ratification of the FTAs, combined with the time needed for the liberalization of trade to become effective under these agreements, imply that the Andean Trade Promotion and Drug Eradication Act (ATPDEA) continues to be very important for the countries in the region. For this reason, the renewal of trade preferences in the United States' market implied by ATPDEA, foreseen for February 2008, is a priority not only for Bolivia and Ecuador—which have not negotiated an FTA with the United States—but also for Peru and Colombia. However, it should be highlighted that the ATPDEA does not substitute for a FTA, since the preferences given by the United States under this law are only for short periods of time, while the FTA is a definitive trade liberalization agreement.

At the same time, 2007 was a very dynamic year in terms of sub-regional integration. Venezuela, which decided to leave the Andean Community (CAN) in 2006, has shown interest in returning to this trade group, although it still maintains reciprocal commercial advantages with its previous partners for a period of five years after leaving. On the other hand, the country continues the process to be recognized as a full member of the Southern Common Market (Mercosur).

It is important to highlight the efforts to consolidate the *Alternativa Bolivariana para las Américas* (ALBA) initiative and the South American Union (Unasur), with the purpose of increasing cooperation between countries in order to move toward a more inclusive regional development.

Progress has been made toward the objective of Latin American countries to reach trade agreements with the European Union (EU). On one hand, negotiations between the EU and the Central American countries for an Association Agreement have been initiated. On the other hand, negotiations between the EU and Mercosur, which were expected to be completed in 2006, have slowed down due to disagreements on investments, services, and agricultural products. Even though the discussions continue on a technical level, it is improbable that an agreement will be achieved before knowing how the Doha Round develops. After a long preparatory process, negotiations started in 2007 regarding a possible agreement between the EU and the CAN countries.

Finally, the countries of the region continue to strengthen their trade ties with Asian countries and other non-traditional commercial partners. The FTA between Chile and Japan came into force in 2007, and this South American country is currently negotiating treaties with Malaysia and Australia, and examining the possibility of starting negotiations with Turkey in 2008. Honduras and El Salvador signed FTAs with Taiwan, and Peru and Singapur are finishing negotiations.





Operations





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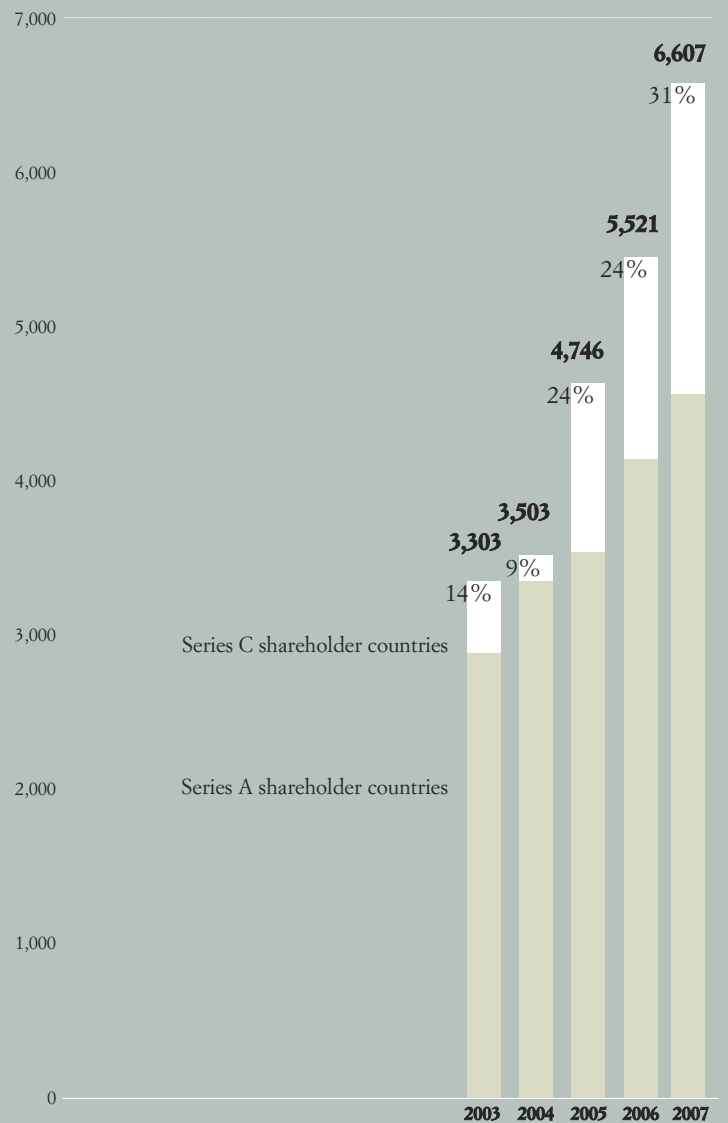
Other shareholder countries p. 66

During 2007, CAF consolidated its presence in Latin America.

The Corporation's regional expansion process in the last five years was reflected in the increased participation of Series C shareholder countries.

The results achieved translated into a new record of approvals, consolidating the positive growth trend of recent years.

Approvals 2003–2007 (in USD million)



DURING 2007, CAF CONSOLIDATED ITS PRESENCE in Latin America. The Corporation's regional expansion process was reflected in the increased participation of the Series C shareholder countries, which concentrated more than 30 percent of the approvals by year-end. Five years earlier, these countries comprised only 14 percent of total approvals. In turn, Series A shareholder countries accounted for approximately 70 percent of the approvals at the end of the period.

The results achieved translated into a new record level of approvals, which amounted to USD 6,607 million, consolidating the positive growth trend observed in recent years. Likewise, disbursements totaled USD 5,844 million, also a record amount for the Corporation. In turn, the loan portfolio reached USD 9,615 million –the highest level in CAF's history– an increase of more than 17 percent over the year before. Of the total loan portfolio, the Corporation assigned 84 percent to Series A shareholder countries, and 16 percent to Series C shareholders.

From a sectoral perspective, CAF continued supporting areas of strategic interest, granting financing mainly to infrastructure and social development projects while responding to an increased demand

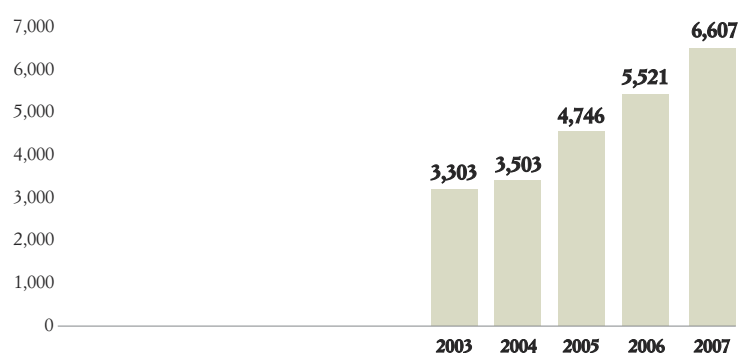
for resources from the private sector. For the first time in the last five years, allocations to this sector represented 25 percent of the portfolio. In particular, CAF offered financial support, directly and indirectly, through the banking system in order to finance investment, working capital, and promote trade within the region. The increase in financing initiatives for the Small and Medium-sized Enterprises (SME) sector was noteworthy during the period.

Likewise, CAF's support through non-reimbursable cooperation funds showed a 23 percent increase with respect to the previous year. The Corporation assigned these funds mainly to attend key initiatives in activities related to the development of micro-finances, the promotion of competitiveness, support to democratic governance, community development, promotion of culture and heritage rescue, and sustainable development in the broadest sense.

Approvals

During 2007, CAF approved operations for USD 6,607 million, an increase of close to 20 percent compared to the previous year, consolidating the positive trend of the Corporation's financial support to its shareholder countries.

Graph N° 1
Approvals 2003–2007 (in USD million)



Approvals by country

The higher concentration of Series C shareholder countries in the structure of approvals was noteworthy during the period. In particular, financing in favor of Argentina, Brazil, Costa Rica, and Uruguay amounted to USD 1,965 million, a significant in-

crease with respect to the participation of these countries a year earlier.

In turn, the commitment to Series A shareholder countries translated into a level of approvals above USD 4,570 million, approximately 31 percent of the total approved during the year.

Table N° 1
Approvals by country (in USD million)

Country	2003	2004	2005	2006	2007	2003–07
Argentina	175	60	257	580	204	1,276
Bolivia	619	499	523	397	275	2,314
Brazil	245	170	695	579	1,518	3,207
Colombia	617	922	1,237	1,001	1,213	4,989
Costa Rica	30	63	2	25	128	247
Ecuador	438	338	815	1,024	1,089	3,705
Mexico	2	2	5	10	-	18
Panama	-	1	80	53	-	134
Paraguay	-	11	11	3	-	25
Peru	633	604	417	941	1,180	3,775
Uruguay	-	-	70	20	115	205
Venezuela	535	821	627	842	816	3,641
Other countries	9	13	7	46	69	144
Total	3,303	3,503	4,746	5,521	6,607	23,680

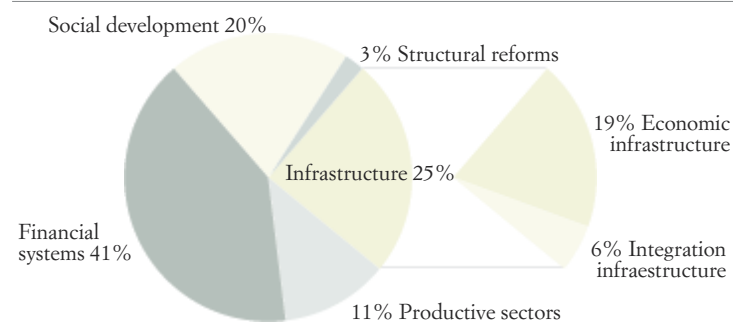
Approvals by strategic area

The Corporation approved USD 1,675 million to the infrastructure area, aligned with the countries' development agendas. These approvals represented 25 percent of the total, of which 19 percent was aimed at supporting economic infrastructure activities, and approximately 6 percent to financing integration projects among countries. The purpose of the projects approved is to contribute to improvements in the quality of living of the population and the promotion of competitiveness and environmental sustainability in the region.

Likewise, CAF financed social development and environmental projects. Approvals to this area of strategic interest amounted to over USD 1,300 million, representing 20 percent of the total. Resources were allocated to projects related to the provision of water, construction of sewage networks, sanitation and waste management, education, and attention to emergencies caused by natural disasters, as well as financing the micro-enterprise sector through specialized financial entities.

In addition, approvals to the financial systems area amounted to USD 2,700 million, channeled mainly through short and

Graph N° 2

Approvals by strategic area 2007

long-term credit lines managed by financial institutions to support the development of small and medium-sized enterprises to finance foreign trade operations. Also, USD 721 million were directly allocated to the productive sectors to finance operations that lead to stronger competitiveness and the expansion of the region's installed capacity.

CAF also approved more than USD 200 million to support structural reforms in the countries of the region, representing three percent of the total approved by the Corporation in 2007. Resources were mainly aimed at supporting the sustainability of public finances through participation in programs that strengthen the management of public debt and the quality of fiscal expenditures.

Project approvals by economic sector

According to the United Nations' (UN) criteria for sectoral classification, at the end of 2007, 51 percent of CAF's approvals supported 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 Corporation has supported the most dynamic and fastest-growing sectors in the region, evidencing not only its alignment with the economic priorities of the countries, but also the timeliness of its response.

Table N° 2

Approvals by economic sector* (in USD million)

	2003	2004	2005	2006	2007	2003–07
Agricultural infrastructure	51	-	-	-	-	51
Mining and quarries	30	-	50	20	30	130
Manufacturing industries	363	85	550	257	344	1,599
Electricity, gas, and water	380	626	674	382	1,067	3,129
Transportation, warehousing, and communication	1,287	1,189	1,606	1,625	895	6,602
Wholesale and retail trade	-	-	-	-	40	40
Public administration	172	735	700	1,345	180	3,132
Hotels and restaurants	-	2	-	-	-	2
Financial intermediation	670	606	922	1,034	2,649	5,881
Other social and health services	287	227	166	791	1,373	2,844
Education	40	-	55	50	-	145
Total	3,279	3,471	4,723	5,504	6,578	23,555

* Does not include operations financed with cooperation funds.

Approvals by term

CAF's activity has favored long-term financing. Thus, the Corporation supported financing segments not attended by other financing entities and participated in projects of high impact in the sustainable development of countries. In recent years, CAF has extended the financing terms of its loans, adapting them to projects with maturities over 15 years.

As in previous years, operations with maturities over five years were predominant in CAF's financial structure during 2007, and represented about 55 percent of total approvals.

In turn, medium and long-term loans concentrated 45 percent of the year's approvals. The significant increase of this operational line was aimed at financing international trade operations and working capital for the development of the productive sector through financial systems.

Table N° 3

Approvals by term (in USD million)

	2003	2004	2005	2006	2007	2003-07
Long-term loans	2,202	2,682	3,049	4,360	3,618	15,911
Medium-term loans	218	62	876	952	46	2,154
Short-term loans	884	758	822	209	2,943	5,615
Total	3,303	3,503	4,746	5,521	6,607	23,680

Approvals by type of risk

During 2007, CAF approvals to the non-sovereign sector increased by almost USD 1,900 million with respect to 2006. Exceptionally, 55 percent of the approvals was concentrated on this sector that demanded short-term resources with greater intensity during the second half of the year due to the turbulence in international capital markets. This included the allocation of resources to the productive sectors of the region that demand credit through the financial systems to

finance working capital, international trade operations, and investments to expand productive capacity, as well as approvals to complement initiatives that do not recur to the sovereign guarantee of the States, as in the case of sub-national governments.

It should be noted that this risk structure responded to the favorable economic performance of the region, enabling CAF to reaffirm its commitment to improving the countries' competitiveness and the entrepreneurial capacity of their economic agents.

Table N° 4

Approvals by type of risk (in USD million)

	2003	2004	2005	2006	2007	2003-07
Sovereign	2,166	2,330	2,473	3,791	2,984	13,745
Non-sovereign	1,137	1,172	2,273	1,730	3,622	9,935
Total	3,303	3,503	4,746	5,521	6,607	23,680

Financing structure

During 2007, CAF maintained a relevant presence in project financing. As shown in Table 5, the Corporation's contribution was

consistently higher than that from other sources. With respect to the previous year, this translated into a four percentage point increase in the ratio CAF financing/total project cost.

Table N° 5

Structure of project financing and corporate loans (in USD million)

	2003	2004	2005	2006	2007
Source of financing					
CAF	2,359	2,542	3,221	4,209	3,522
Beneficiary's contribution	3,095	3,087	1,559	2,452	2,507
Local source	1,037	680	1,779	3,307	290
External source	3,191	2,650	1,802	52	1,367
<i>Multilateral organization loans</i>	1,625	1,453	583	52	879
<i>Other external sources</i>	1,565	1,198	1,219	0	488
Project cost	9,683	8,959	8,362	10,020	7,686
CAF financing/project cost ratio	24%	28%	39%	42%	46%

Disbursements

At year-end 2007, CAF disbursements reached USD 5,844 million, almost doubling the amount disbursed the year before. Almost 76 percent of the total was distributed among Bolivia, Colombia, Ecuador, Peru, and Venezuela. In turn, disbursements to Series C shareholder

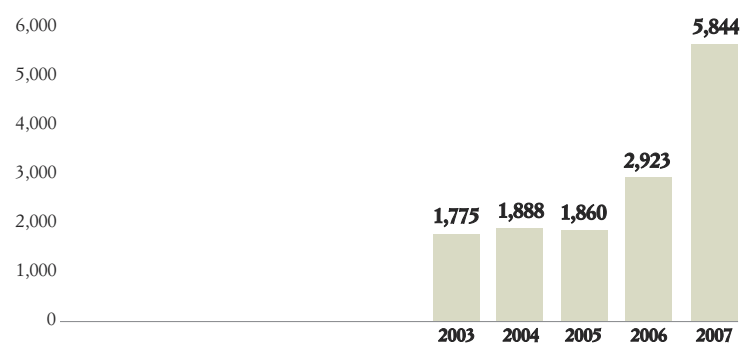
countries increased to USD 1,406 million, and concentrated 24 percent of the total (nine percent in 2006). This figure was considerably higher than the average disbursements to these countries during the last five years, evidencing the increasing expansion of the Corporation's regional scope.

Table N° 6

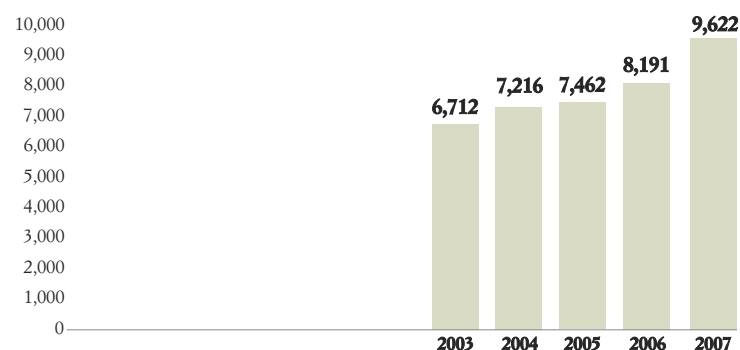
Disbursements by country (in USD million)

	2003	2004	2005	2006	2007	2003-07
Argentina	-	-	34	64	333	431
Bolivia	345	233	198	175	197	1,148
Brazil	88	16	105	132	879	1,220
Colombia	324	533	688	653	968	3,166
Ecuador	358	297	340	504	1,416	2,916
Peru	265	464	255	483	1,730	3,198
Uruguay	9	6	4	11	62	90
Venezuela	337	309	208	845	127	1,827
Other countries	47	31	28	55	132	293
Total	1,775	1,888	1,860	2,923	5,844	14,289

Graph N° 3

Disbursements 2003-2007 (in USD million)

Graph N° 4

Portfolio 2003–2007 (in USD million)**Portfolio**

At year-end 2007, CAF's portfolio reached USD 9,622 million, an increase of over 17 percent with respect to the amount registered in 2006. For the fifth consecutive year, the growth of the portfolio marked a new record for the Corporation and maintained the positive trend of recent years.

Portfolio by country

The growth of the portfolio demonstrated the economic dy-

namism of Latin American countries in 2007, and highlighted the need for resources that arises with the expansion of these economies. As of December 31st, 2007, the portfolio assigned to Bolivia, Colombia, Ecuador, Peru, and Venezuela increased by 7.4 percent, reaching USD 8,110 million and representing 84 percent of the Corporation's portfolio. In turn, loans to Series C shareholder countries and other equity investments reached USD 1,512 million, an increase of over USD 870 million with respect to the previous year. These countries represent 16 percent of the direct portfolio.

Table N° 7

Portfolio by country (in USD million)

	2003	2004	2005	2006	2007
Argentina	-	-	34	98	421
Bolivia	862	936	989	1,031	1,048
Brazil	368	297	245	323	807
Colombia	1,547	1,701	1,901	1,620	1,633
Costa Rica	2	1	11	25	38
Ecuador	1,207	1,225	1,231	1,371	2,150
Panama	37	33	25	38	88
Paraguay	42	53	48	41	39
Peru	1,398	1,661	1,722	1,806	1,809
Uruguay	15	20	24	31	62
Venezuela	1,145	1,197	1,135	1,724	1,470
Other countries	91	92	96	84	57
Total	6,712	7,216	7,462	8,191	9,622

Portfolio by economic sector

The contribution to the development of infrastructure and social development of shareholder countries is one of CAF's main strategic lines. At the end of 2007, infrastructure loans stood at about USD 4,200

million, representing 43 percent of the portfolio. In particular, 32 percent was concentrated on loans for transportation infrastructure, warehousing and communications, and 11 percent for the supply of electricity, gas, potable water and basic sanitation.

CAF also promotes an important agenda of social development aimed at improving welfare and alleviating poverty, by supporting investment and projects in health and education. At the end of 2007, education, and social and health services comprised 20 percent of the loan portfolio (USD 1,945 million).

Likewise, the portfolio assigned to commercial and development financial institutions sector reached USD 1,761 million. The significant increase responded to the Corporation's interest in supporting the expansion of the productive sector, specially the SME segment, as a key element in the economic development of the countries in the region.

Table N° 8

Portfolio by economic sector (in USD million)

	2003	2004	2005	2006	2007
Agricultural infrastructure	276	258	217	142	113
Mining and quarrying	34	14	10	60	70
Manufacturing industry	189	163	169	193	279
Electricity, gas, and water	1,192	917	932	985	1,079
Transportation, warehousing, and communications	2,398	2,785	2,751	3,190	3,103
Commercial banking	301	32	493	431	1,512
Development institutions	552	366	275	312	249
Education, social, and health services	1,023	1,647	1,702	1,671	1,945
Other activities	747	735	914	1,206	1,272
Total	6,712	7,216	7,461	8,191	9,622

Loan portfolio and capital investments

As in previous years, the largest portion of the Corporation's loan portfolio was assigned to support long-term operations with the objective of creating economic and social development infrastructure. At the same time, medium and short-term portfolios showed significant increases, responding to the increased participation of the Corporation in financing the productive sector through the financial systems of the countries in the region.

Capital investments reached USD 67 million and were distributed in equity investments and in different funds through which the Corporation supports various economic activities, specially SMEs. The main objective of these investments is to create incentives for the sustainable development of Latin American countries, specially in the specific sectors to which the funds are directed.

Table N° 9

Loan portfolio and capital investments (in USD million)

	2003	2004	2005	2006	2007
Capital investments	115	112	115	93	74
Loans	6,597	7,104	7,347	8,097	9,548
<i>Long-term</i>	6,269	6,863	6,953	7,456	7,868
<i>Medium-term</i>	191	91	55	189	377
<i>Short-term</i>	137	150	339	452	1,303
Total	6,712	7,216	7,462	8,191	9,622

Portfolio by type of risk

At the end of 2007, 75 percent of the portfolio was comprised of sovereign risk loans, reaching USD 7,249 million. This reflects CAF's commitment to financing public investment projects by adapting to the sectoral and financial needs required by the governments of the shareholder countries.

Beneficiaries of non-sovereign risk loans concentrated 25 percent

of the portfolio, representing a significant increase with respect to the previous year, reaffirming the Corporation's commitment to support private sector growth that leads to improved levels of competitiveness. It is worth noting the loans granted to sub-national governments without the nation's guarantee, that reflect the growing financial strength of some of these governments. This is a result of the efforts to heighten decentralization and the sustained quality of their public management policies.

Table N° 10

Portfolio by type of risk (in USD million)

	2003	2004	2005	2006	2007
Sovereign	5,846	6,456	6,601	7,072	7,249
Non-sovereign	866	760	860	1,118	2,373
Total	6,712	7,216	7,461	8,191	9,622

Operations with cooperation funds

Assistance through cooperation funds is a comprehensive part of the financial services provided by the Corporation to public and private sector clients of shareholder countries. The allocation of cooperation funds constitutes an important tool to support countries and offers, among others, the following advantages: i) ensures the quality of investment projects, ii) provides assistance in capacity

building and self sustainability of communities, iii) helps improve the competitiveness of productive chains, iv) contributes to the preservation of the environment, and v) increases social capital, and improves the management capacity of SMEs.

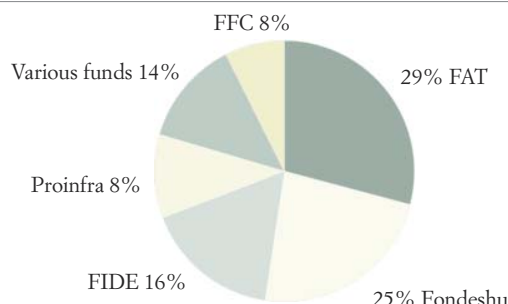
During 2007, approvals channeled through these funds (Graph 5) reached close to USD 48 million, representing a 26 percent increase with respect to the amount assigned in 2006.

Main approvals with cooperation funds managed by CAF (in USD million)

Technical Assistance Fund (FAT)	14.04
Human Development Fund (Fondeshu)	11.95
Enterprise Investment and Development Fund (FIDE)	7.71
Compensatory Financing Fund (FFC)	3.81
Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra)	3.69
Bolivia Special Fund (FEB)	3.41
Ecuador Special Fund (FEE)	1.43
Latin American Carbon, Clean and Alternative Energies Program (PLAC ^{+c})	1.32
Other funds*	0.37
Total	47.74

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

Graph N° 5

Sources of cooperation funds 2007**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.

Entrepreneurial Investment and Development Fund (FIDE)

Supports the strengthening of the capital base of SMEs in shareholder countries through capital, quasi-capital, and credit operations. Activities are implemented through alliances with venture capital funds, banks, large industries, and guarantee funds.

Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra)

Allocates resources to finance diagnostic studies of sectoral problems, 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.

Compensatory Financing Fund (FFC)

Promotes the execution of projects aimed at reducing regional

asymmetries, helping excluded populations and promoting the integration of regional infrastructure. Allocates resources in order to reduce the financial costs of projects that meet certain eligibility criteria.

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 the Agreement Establishing CAF.

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.

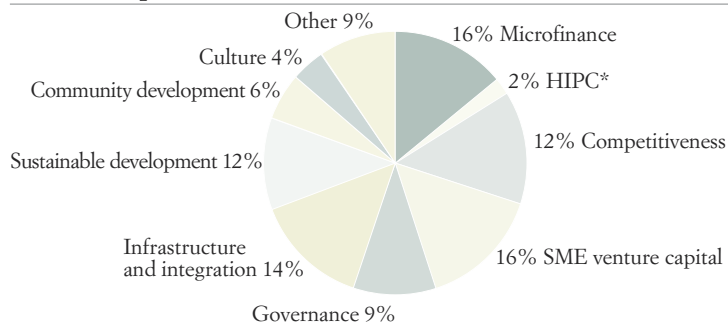
Andean Energy Conservation Fund (FACE)

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.

Graph N° 6

Uses of cooperation funds 2007

* Highly Indebted Poor Countries

In 2007, the Corporation allocated USD 7.7 million to activities related to risk capital in the SMEs through the FIDE. In particular, the operations were aimed at promoting initiatives that facilitate access to financing for SMEs, as well as guarantee funds, refinancing credit portfolios, co-insurance schemes, and novel risk-sharing instruments with financial institutions in various countries in the region in which CAF will partially guarantee credits granted to SMEs of different sectors.

Another priority segment was the development of microfinance institutions. The Corporation allocated USD 7.6 million in cooperation resources to support the expansion of productive capacity and provide working capital. Resources were mainly assigned from Fondeshu and were distributed as follows: 83 percent to Bolivia, Colombia, Ecuador, and Peru; and 17 percent to Series C shareholder countries.

Latin American countries expanded their joint work on integration. To this respect, the Corporation granted USD 7 million for the development of physical infrastructure using mainly resources from Proinfra. Likewise, CAF supported the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), the GeoSUR program, as well as the First Class Ports Program, and the Cross-Border Development and Integration Program (PADIF) with resources from FAT.

The Corporation approved USD 6 million to develop clusters, improve the business climate, and strengthen entrepreneurial capacity, in an effort to support activities aimed at improving competitiveness. In addition, it continued the execution of the Corporate Governance Program emphasizing the development of conceptual contributions and the implementation of best practices in various enterprises within the region.

In its supportive role to shareholder countries, the Corporation continued executing its Governance Program, investing USD 4 million to generate potential opportunities to strengthen democratic governance in the countries and increase citizenship co-existence through dialogue and consensus-building processes.

It should be noted that during 2007 Mexico joined the Governance and Political Management Program. Using resources from Fondeshu and FAT, CAF expanded and strengthened its actions in the area of cultural and community developments to address the needs of the least favored groups of the population. In this area, the Corporation allocated USD 4.2 million to support social rescue initiatives through music, sports, and the protection of the national cultural heritage, as well as to community development programs focusing its attention on excluded rural areas.

In addition, CAF allocated USD 5.3 million in cooperation resources to support activities in the social and environmental development areas. Thus, the Corporation strengthened its social action supporting projects related to potable water and sanitation, education, and health aimed at helping and catalyzing the efforts of its shareholder countries. Through the Biodiversity Program (BioCAF), CAF supported the organization and execution of the II Congress on Latin American National Parks and other Protected Areas, where several reports were produced on the management and status of protected areas in various countries of the region. A number of operations related to environmental management are supported with resources from the Latin American Carbon, Clean and Alternative Energies Program (PLAC⁺).

In 2007, the Corporation edited the reports on the results obtained in the implementation of the Andean Regional Program for the Prevention and Mitigation of Disaster Risks (Preandino), developed by CAF

from 2001 through 2006. It should be noted that through this program CAF initiated technical assistance actions to alleviate the damages leveled in Ica, Chincha, and Pisco caused by the earthquake in Peru.

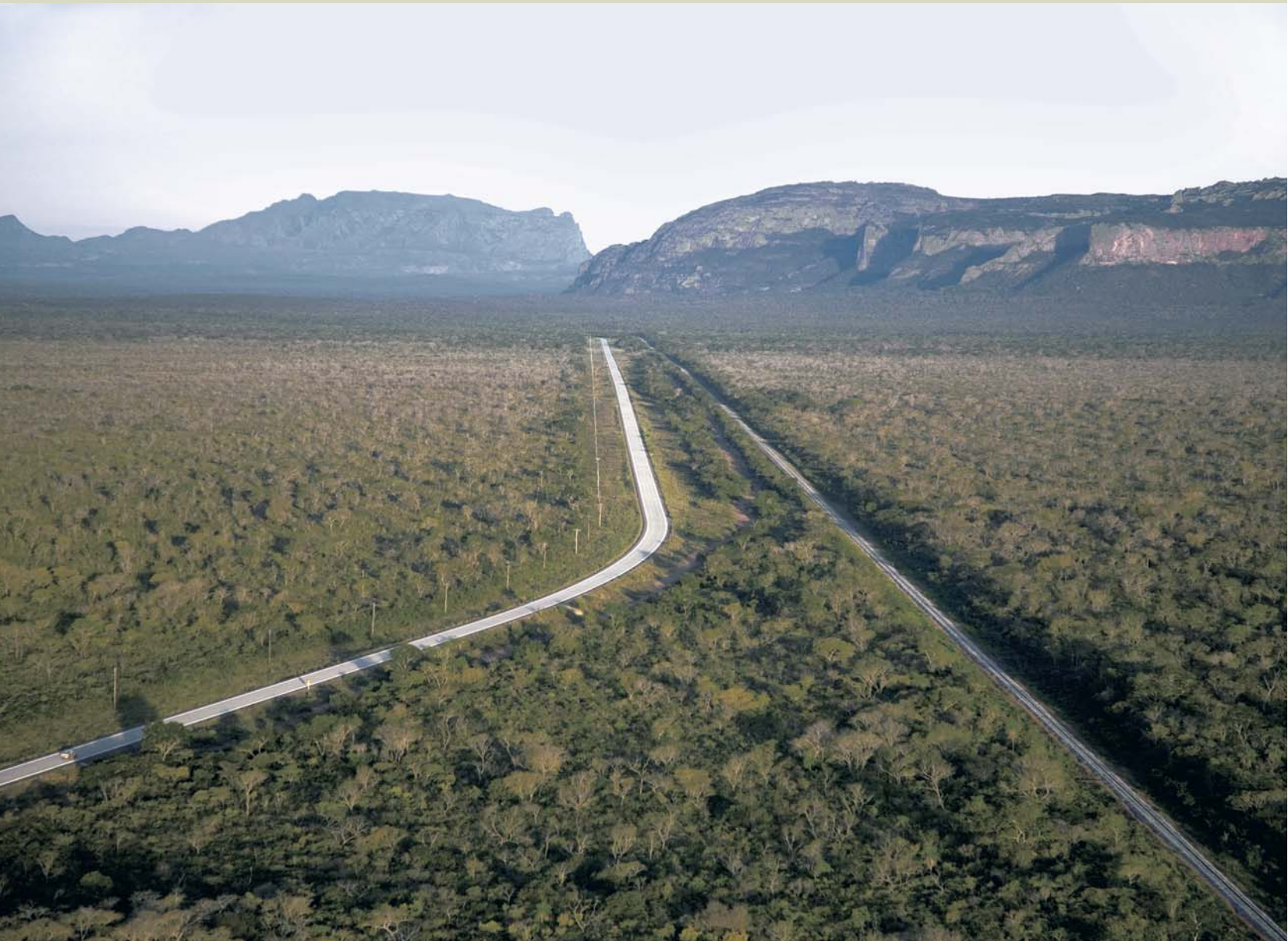
In addition, CAF allocated USD 5.8 million from the FFC and the FEB to reduce the costs of loans made to shareholder countries to finance high impact development projects intended to reduce regional asymmetries, provide services to excluded populations, and build integration infrastructure.

In the area of microfinance, the Corporation supported, with cooperation resources, twenty-five initiatives aimed at promoting regional integration, transferring knowledge, and disseminating best practices; identifying and developing new products; supporting the institutional strengthening of CAF's strategic partners through MSMEs financing in sectoral studies; and developing adequate regulatory frameworks. The section on Operations by country (pp. 36 – 77) outlines some of the initiatives supported by CAF with cooperation funds.

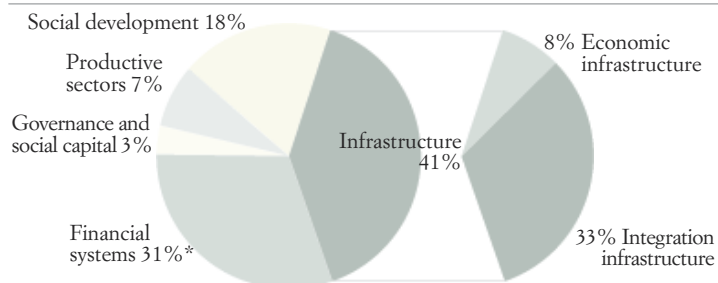
The Road Corridor Santa Cruz–Puerto Suárez, which connects the city of Santa Cruz de la Sierra with Brazil, is one of the main South American integration projects under construction. Once concluded, it will connect the Pacific and Atlantic oceans through the heart of the continent, enabling the development of commercial, agro-industrial, mining, machine tools, and tourism industries of Argentina, Bolivia, Brazil, Chile, Paraguay, and Peru. Bolivia participates in the Andean, Inter–Oceanic, and in the Peru–Brazil–Bolivia axes of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), thus becoming the connecting country for those three axes. The main road network in Bolivia has 21 routes with a total of 11,631 kilometers, of which only 3,432 kilometers (30 percent) are paved. The Road Corridor between Santa Cruz and Puerto Suárez, with approximately 592 kilometers, begins at kilometer 62 of the

Santa Cruz–Trinidad Highway and runs through the plains of Chiquitanas, passing by the towns of San José and El Carmen, and joining the paved road at Puerto Suárez to finish in Arroyo Concepción at the Brazilian border.

The completion of this road project will enable the towns along the road to revive from stagnation. Due to lack of access, there are large areas in the Roboré–Puerto Suárez sector that are not incorporated into the country’s economic and social activities. Agricultural production, as it has no access to the market, is reduced to local consumption and is mostly concentrated in the production of citrus fruits for the Santa Cruz market. The area of Puerto Suárez is where commercial activities have greater dynamism. The Road Corridor will enable Bolivia to consolidate its only access to international waters through the river channels which provide access to the Paraguay–Paraná Waterway.



Approvals by strategic area 2007



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

DURING THE PAST FIVE YEARS (2003–2007), CAF has approved operations for Bolivia for USD 2,314 million, an average of USD 463 million per year, equivalent to 10 percent of total approvals. Disbursements reached USD 1,148 million (8 percent of disbursements to shareholder countries), equivalent to an annual average of USD 230 million.

During 2007, CAF approved operations for USD 275 million, equivalent to 4 percent of the total, while disbursements reached USD 197 million (3.4 percent of the total). At the end of the year, the portfolio reached USD 1,048 million, equivalent to 11 percent of the total portfolio. A large part of the approvals (USD 134 million) was allocated to sovereign risk projects.

During the year, CAF approved USD 113 million (41 percent of total approvals to the country) for the development of *infrastructure* programs and projects. These operations were related to improvements related to internal traffic, the incorporation of regions with productive potential of the national economy, the physical integration of Bolivia with other countries in the region, and positive changes in the quality of life of the population.

In addition, the Corporation directed USD 105 million to the *productive and financial sectors* to promote private sector investment, finance working capital as well as international trade operations. It is worth noting that an electric generation project is the first initiative related to a clean energy combined cycle conversion in the country. The technology uses the gases generated in the turbine's combustion process to generate non-polluting new energy. The project qualifies for carbon credits under the United Nations Framework Convention on Climate Change (Kyoto Protocol). Regarding the financing of working capital and international trade operations, CAF channelled USD 85 million through the financial system to attend the needs of SMEs under the premise that a solid entrepreneurial business base enhances Bolivia's trade integration with the rest of the world.

CAF also assigned USD 49 million to the area of *social development*. Of that amount, USD 21 million were assigned to financing the Natural Disaster Risk Management Program, specifically for rehabilitation projects and measures to prevent natural disasters. The remaining amount (USD 28 million) was used to support initiatives whose aim is to motivate and strengthen the performance of micro-enterprises.



From left to right:
Graduation from the Leadership for Change Program. CAF–Instituto IDEA. La Paz, Bolivia, November.

The dairy products cluster has a high potential for development in the department of La Paz.

Other contributions to sustainable development in Bolivia

During 2007, CAF granted USD 7 million to Bolivia in cooperation funds. The resources were directly channelled to beneficiaries or through the various special programs developed by the Corporation:

Governance

- *Governance and Political Management Program:* Signed agreements with Universidad del Valle to train 229 participants including majors, council members, presidents of neighbourhood committees, departmental councillors, municipal technical teams, politicians, and organizational leaders. The participants worked on subjects related to municipal activities.
- *Leadership for Change Program:* Trained 644 natural leaders of 55 municipalities in 12 cities through an alliance with *Fundación Idea*. The objective is to generate leadership for change with the capacity to identify community needs and formulate actions that contribute to improving citizen participation.
- *Regional Program for Updating and Improving Local Management (PRAMEG):* Approved and implemented the program in the municipalities of Tiquipaya and El Torno. Conducted a comprehensive diagnosis to identify and prioritize potential areas of improvement in municipal governments, as well as to design and implement action plans.

Competitiveness

- *Competitiveness Program:*
 - Supported productive clusters in the dairy sector in the department of La Paz.
 - Developed a Management System for the Improvement of Competitiveness (SGMC) for thirty tourist organizations in the cities of Potosí and Sucre.
- *Corporate Governance Program:* Supported the insurance industry in Bolivia in the drafting of a Corporate Governance Code.

From left to right:

The President of Bolivia, Evo Morales –accompanied by the executive president of CAF, Enrique García, the President of the Bolivia Road Administration, Patricia Ballivian, and the Prefect of Santa Cruz, Rubén Costas– inaugurated the first section of the Santa Cruz–Puerto Suárez Road Corridor in September. During 2007, CAF approved resources to finance the road program “La ‘Y’ de Integración”, to be implemented by the Bolivia Road Administration (ABC).



Environment

- *Biodiversity Program (BioCAF):*

- Provided resources for the Congress on Latin American National Parks and other Protected Areas through the Conservation, Biodiversity Research, and Sustainable Development Association (SAVIA).

- *Latin American Carbon, Clean and Alternative Energies Program (PLAC^{ce}):*

- Supported the Bolivia Stock Exchange in developing the project “Promotion of the Carbon Market in Bolivia and Conditions for Developing the Social and Environmental Responsibility Exchange”.
- Conducted a Seminar on Strengthening Technical Capacities in the Bolivian Public Sector, in a joint effort with the Ministry of Development and Planning and the Office for Clean Development.

- Organized a Regional Andean Workshop with The Nature Conservancy (TNC), within the framework of the project “Preserving Natural Resources for People and Nature”. The workshop highlighted the degree of regional progress regarding environmental services.

Social development

- *Natural Disaster Risk Management*

- *Program:* Allocated resources to help citizens take actions aimed at mitigating the consequences of the rainstorms of the beginning of the year.

- Launched a technical assistance program for territorial planning and identification of actions leading to the improved development of the borders, in the Bolivian departments of Potosí and Tarija and the provinces of Jujuy and Salta in Argentina.

- Sponsored the Forum on Latin American and the Caribbean Rural Finance in La Paz, during the month of May.

- Allocated resources to *Universidad Privada Boliviana* (UPB) to undertake a feasibility study for securitizing future tuition payments.

- Allocated resources to *FundaPro* to support their educational credit program.

- Approved lines of credit and capital investments to *FFP Eco futuro*, *FFP Fossil*, *Cooperativa Jesus Nazareno*, *Fondo Fortaleza PyME*, *Fundapro*, *Fondo Aval Bursátil* and *Fondo Emprender*, to finance MSMEs.

- Conducted pre–investment studies of various road corridors and technical assistance programs to strengthen management of the Bolivia Road Administration (ABC).

Social responsibility

- *CAF Social Action for Music Program:*

- educated 1,400 children and youth, through travelling conservatories of instrumental and choral music in Santa Cruz de la Sierra, la Chiquitanía, El Alto and La Paz.

- *Local opportunities:* trained 4,200 Aymara women from Calamarca and Morochata in health and women’s rights. Improved sanitation and nutrition for 10,000 school children in El Alto, giving schools access to natural gas.

- Provided specialized technical education for young people in Calamarca, and productive training for the community, including financial management.

- *Skills training:* trained 400 youth in Chiquitanía, Potosí, and Sucre, in alliance with the Spanish Agency for International Cooperation (AECI).

- Recovered music sheets from the joint mission archive of Concepción.

- *Social Action for Soccer:* trained 1,200 children in alliance with *Academia Tabuichi*.



Approvals to Bolivia. 2007

Client/Executing agency	Operation	Objective	Amount (in USD million)	Term (years)
Republic of Bolivia- Bolivia Highway Administration (ABC)	Road Integration Program "La 'Y' de Integración"	Improve and expand the national road infrastructure to favor the national and regional physical integration.	70	18
Republic of Bolivia- Bolivia Highway Administration (ABC)	Rehabilitation of the La Guardia-Comarapa Highway	Rehabilitate the La Guardia-Comarapa Highway damaged by the rains at the beginning of 2007.	21	18
Republic of Bolivia- Ministry of Development Planning	Bolivian Natural Disaster Risk Management Program 2006- Phase II	Rehabilitate the damages caused by rains at the beginning of 2007, and implement disaster prevention actions in the areas of physical, natural, and social capital.	21	18
Republic of Bolivia- Bolivia Highway Administration (ABC)	Fourth Program to Support the Transportation Sector. (PAST IV)	Incorporate various regions with productive potential to the economy, promote actions for integration with neighboring countries, mitigate isolation and social and economic exclusion in the provinces.	22	15
Guaracachi Electric Company	Corporate loan	Finance the turbine conversion project to generate electricity.	20	10
Central Bank of Bolivia, and Económico, Mercantil, and Nacional Banks.	Trade, working capital, and investment projects	Finance investment, trade operations, and working capital projects.	85	Various
Los Andes Procredit and Solidario Banks, FIE and Prodem Private Financing Funds.	Working capital	Finance working capital operations in the micro enterprise sector.	28	Various
Various clients	Operations with cooperation resources	Various.	8	Various
Total			275	

CAF supports the development of the Sucre Workshop School training youths in masonry, stonecutting, carpentry and restoration of paintings and furniture. Sucre was designated Cultural Heritage of Humanity by Unesco in 1991. In addition, as a university city, it has important advantages for the establishment of a National Conservation Center. At present, the Workshop School is the only training institution authorized to work in the cultural heritage site, and in the department of Chuquisaca. By the end of 2007, 300 students between the ages of 16 and 25 had been trained in this school.

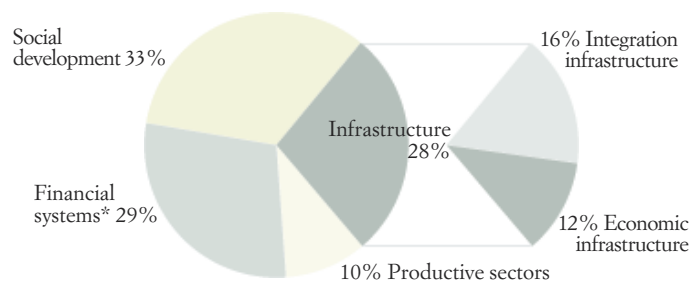


The Educational Program Bogotá One Big School, part of the government project Bogotá without Indifference, is aimed at: increasing access, attendance and permanence, and quality of education for at least 65,000 students in the pre-school, elementary, middle, and upper-middle levels, attending the priorities of children from the least favored strata; improving the quality of education through

the promotion of a second language; and increasing school permanence through various strategies of conditional transfers based on the assistance of students to an educational center. The resources granted by CAF are aimed at financing the increased coverage through the expansion of educational centers and improving the physical infrastructure.



Approvals by strategic area 2007



*Loans channelled to small and medium-sized enterprise through the financial system.

DURING THE LAST FIVE YEARS (2003–2007) CAF has approved operations for Colombia for USD 4,989 million, an average of USD 998 million per year, equivalent to 21 percent of total approvals. Disbursements amounted to USD 3,266 million (22 percent of total disbursements to shareholder countries), an annual average USD 633 million.

During 2007, CAF approved operations for USD 1,213 million, equivalent to 18 percent of the total, while disbursements amounted to USD 968 million (17 percent of the total). At year-end, the portfolio totalled USD 1,633 million, equivalent to 17 percent of the total. An important portion of the approvals (USD 545 million) was allocated to sovereign risk projects.

During 2007, CAF allocated USD 469 million to the *financial and productive sectors* to finance private investment initiatives, mainly in the areas of energy, communications, international trade operations, and working capital. Of that amount, USD 350 million were channelled toward banks especially to finance SMEs. The object of these initiatives is to promote the strengthening of an entrepreneurial base to address the challenges of commercial integration with the rest of the world, one of the country's policy priorities.

In addition, the Corporation allocated 33 percent of the approvals to the social development area. The approval of USD 400 million for the Social Investment Program to Support the Reduction of

Poverty is noteworthy. CAF finances various National Government projects that have a strong impact on the improvement of living conditions of the vulnerable population. At the same time, CAF allocated USD 5 million to micro-financing entities.

The Corporation also approved USD 336 million (28 percent of the total) for the *infrastructure* area to support improvements in the transportation, energy, and communications areas, and provide access of national products to external markets under competitive conditions. A loan for USD 145 million approved for the Buga–Buenaventura Road Corridor is included in this segment. This regional integration route connects several areas of the country with Buenaventura, the country's main port on the Pacific Ocean. The port moves about 30 percent of Colombia's foreign trade.

CAF also approved a USD 55 million loan to the Bogota District for the Road Rehabilitation and Maintenance Program. The initiative includes the construction and improvement of the city's road infrastructure, as well as complementary works for the road network within Bogota.

In the area of generation and distribution of energy, the Corporation approved resources for the private sector amounting to USD 136 million. One of the initiatives is associated to the expansion and consolidation of the Energy Company of Bogota, which received USD 100 million from CAF.



On November 1st, the Governing Body of the Andean Community gave Enrique García, executive president of CAF, a recognition plaque for his support of the Andean Parliament.

In June, CAF reiterated its interest in supporting development programs in Colombia. In the Nariño House, CAF's executive president, Enrique García, was received by President Álvaro Uribe Vélez and the Secretary of State, Fernando Araújo.



Other contributions to Colombia's sustainable development

During 2007, CAF granted USD 3 million to Colombia in cooperation funds. The resources were directly channelled to beneficiaries or through various special programs developed by the Corporation:

Governance

- *Governance and Political Management Program:* Signed agreements with *Universidad Autónoma de Bucaramanga*, *Universidad Francisco de Paula Santander (Seccional Ocaña)*, and *Universidad del Rosario*.
- *Leadership for Change Program:* Identified 2,026 leaders of which 1,100 were chosen to be trained in the *Escuela Superior de Administración Pública (ESAP)* under an agreement with CAF. Ninety-five students were nominated to participate in elections for majors, council members, representatives, and governors, and 27 were elected in local and regional elections. Throughout the year, the program covered 100 municipalities.
- *Tools for Governance and Consensus Building Program:* Initiated the program training 40 strategic leaders from the public sector and the civil society on modern techniques regarding negotiation, strategic communication, leadership, and persuasion. The program was supported by Cambridge International Consulting (CIC).
- *Regional Program for Updating and Improving Local Management (PRAMEG):* Attended the municipalities of Tabio and Zipaquirá in the department of Cundinamarca on the subject of municipal property registry.

Competitiveness

- *Competitiveness Program:*
 - Developed a diagnosis focused on improving the regulatory framework for the production and sale of medical supplies and devices.
 - Supported the development of capital markets in the horticultural and fruit sectors by issuing shares in the stock market.
 - Implemented the Workshop on Productive Change with the members of the National Competitiveness Commission.
 - Supported the implementation of The Great SME Survey in Colombia, third edition.
 - Developed the project "Education and Culture Model on Industrial and Intellectual Property in Colombia".
- *Corporate Governance Program:*
 - Presented the Diagnosis of Corporate Governance Practices in the Andean Region in Bogotá.
 - Conducted the Program on Implementation of the Corporate Governance Code in Municipal Enterprises in Cali (Emcali).



Financing the Potable Water and Sanitation Program in the Department of Cesar improves the conditions for the delivery of potable water, basic sanitation, and solid waste management in 18 municipalities.

In Bogota, the Corporation celebrated CAF's First Junior Soccer Championship Cup "A ball for life." During the tournament, the children visited the Science Museum. Close to 600 boys and girls have benefited from this initiative.



Environment

- *Biodiversity Program (BioCAF)*:
 - Concluded the Financing Facilitation Project for Bio Diverse Businesses and supported the development of the market activities in the region.
 - Supported businesses in adopting best practices for manufacturing medicinal products using endemic plants.
- *Program for Sustainable Development in Financial Institutions*: implemented the Workshop on Better Environmental Practices in Financial Management.
- *Latin American Carbon, Clean and Alternative Energies Program (PLAC^{ce})*.
 - Projects Megabus in Pereira, Transmilenio in Bogota, and the integrated urban mass public transportation system in Occidente, consisting of a Rapid Transit Bus (RTB).
 - Project *Ingenio Providencia* in the Cauca Valley, related to increasing generating capacity in the province through the use of efficient energy.
 - Conducted the Seminar on Opportunities in Urban Mass Transportation in the Kyoto Protocol. *Transmilenio* was presented as the first transportation project to achieve approval of a methodology under the Protocol.

Social development

- Supported the implementation of the Potable Water and Sanitation Regional Plans in the departments of Cesar and Magdalena.
- Published policy notes and supported the implementation of the Ten Year Educational Plan 2006–2015.
- Supported the Latin American Sanitation Conference (Latinosan)
- In coordination with the Colombian Banking Association, promoted the Microfinance Forum "How to develop mass access to financial services", held in the city of Cartagena.
- Supported the forum on microfinance risks, along with *Cooperativa Emprender*, in Bogota.
- Supported the modernization and improvement of ports, including the creation of the Colombian Endowment Fund for Quality of Port Services, and supported the design and delivery of concessions and projects aimed at the promotion of private investment to finance transportation infrastructure projects.
- Supported the first phase of the technical, legal, and financial structuring of the Concession Project for the *Valle de Aburrá–Golfo de Urabá* Road Corridor, prior to calling private sector bids for the construction, operation, and maintenance of the road.

Social responsibility

- *CAF Social Action for Music Program*: Provided instrumental and choral education to 5,600 children and youth in a joint effort with *Fe y Alegría*, in traveling conservatories in Bogota, Cali, Medellin, and Villavicencio.
- *Local opportunities*:
 - Economic and social reactivation of 700 farming families in the Cauca Valley with the cooperation of the VallenPaz Corporation.
 - Capacity building and promotion of micro–enterprise initiatives with 500 families of the Aguas Blancas District in Cali, in alliance with *Fundación Carvajal*.
 - Supported the comprehensive education of 450 children from the Medellin municipalities, using computers and other technological tools.
- *Skills training*:
 - In alliance with AECI and with the participation of the Ministry of Culture, municipalities, and provincial governments, trained of 400 youth in basic skills in the workshop schools of Cartagena, Bogota, Popayan, and Mompox.
 - In alliance with *Fundación Servicio Juvenil*, trained 600 excluded and high risk youths in Buenaventura, facilitating their labor and social integration.
- *Social Action for Soccer*: In alliance with *Fundación Colombianitos* and *Fedecajas*, educated 3,200 boys and youth from Barbosa, Bogota, Cali, Cartagena, Medellin, Puerto Tejada, and Sincelejo.



Approvals to Colombia. 2007

Client/Executing agency	Operation	Objective	Amount (in USD million)	Term (years)
Republic of Colombia	Buga-Buenaventura Corridor	Improve the transportation infrastructure in the Bogota-Buenaventura Corridor, specifically in the final section close to the port from Buga.	145	18
Republic of Colombia	Social Investment Program to Support the Reduction of Poverty	Support strategy implementation to reduce poverty by financing social investment projects with high impact on the improvement of living conditions among the most vulnerable population.	400	18
Municipality of Bogota, D.C.	Program for the the Construction, Improvement, and Sustainability of Bogota's Road Network and its complementary infrastructure	Improve city traffic through interventions at different levels through the interconnection of transportation means.	55	18
Energy Company of Bogota, S.A.E.S.P.	Corporate loan	Acquire industrial assets.	100	12
ISA Electrical Interconnection	Non-committed revolving credit line	Finance working capital and capital investments.	15	Various
Impsa Andina, S.A.	Letters of credit	Acquire industrial assets.	21	Up to 10 years
Bancolombia, Banitsmo Colombia, Colpatria, Banco de Comercio Exterior, Davivienda Bank, Findeter, Leasing Bancolombia, Banco de Occidente, Suleasing Internacional S.A.	Non-committed revolving credit line	Finance working capital and capital investments.	350	Various
WWB Cali Foundation	Lines of credit, subordinated loans, capital investments, equity investments, and guarantees	Acquire capital goods and finance working capital in the micro-enterprise sector.	5	Various
Colcerámica	Non-committed revolving credit line	Acquire industrial assets.	15	1
Monómeros Colombo Venezolanos	Non-committed revolving credit line	Finance working capital and capital investments.	20	1
Argos Cements	Corporate loan	Finance investment in a new production line of cement.	75	1,5
Biocastilla	Corporate loan	Construct five oil processing plants.	9	8
Various beneficiaries	Operations with cooperation funds	Various.	3	Various
Total			1,213	

During 2007, CAF approved resources aimed at improving the transportation infrastructure in the Buga–Buenaventura Road Corridor, specifically in the final trench to the port from the town of Buga.

The corridor is considered the most important road of Colombia's regional integration, since it transports 40 percent of the country's foreign trade cargo through the Pacific Ocean. CAF participates in the financing of this project through the execution of works to improve areas of this transportation

route, including the La Línea Tunnel, and the Buga–La Paila road concession.

In addition, the Corporation has provided technical assistance for pre-investment studies and the program to improve port services. The corridor, specifically the section Buga–Buenaventura, has been included in the set of projects that comprise the integration and development axes identified by the Initiative for the Integration of the South American Regional Infrastructure (IIRSA).

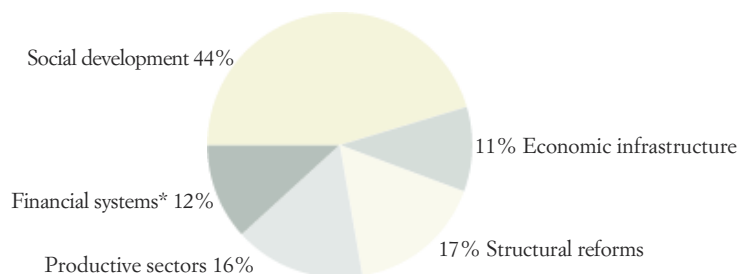


The general objective of the Road Access to Barrios Program in Quito is to improve access to the excluded marginal urban barrios that are part of the Metropolitan District of Quito due to the urban-spatial transformations derived from the expansion process of the peripheral urbanization. In addition, the program seeks to improve the access of established neighborhoods, with

the purpose of improving the living conditions of citizens. The objective is to provide the population –mostly lower income– with good quality roads to enable permanent transit of public transportation. The initiative also facilitates an effective circulation of public service vehicles such as garbage collection, ambulances, fire trucks, and taxis.



Approvals by strategic area 2007



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

DURING THE PAST FIVE YEARS (2003–2007) CAF has approved operations in Ecuador for USD 3,705 million, an average of USD 741 million per year, equivalent to 16 percent of total approvals. Disbursements reached USD 2,916 million (20 percent of the total disbursed in the period), an annual average of USD 583 million.

During 2007, CAF approved operations for USD 1,089 million, representing 16 percent of the total, while disbursements reached USD 1.416 billion (24 percent of the total).

At year-end, the direct portfolio amounted to USD 2,150 million, equivalent to 22 percent of the total portfolio. A considerable portion of the approvals (USD 600 million) was allocated to sovereign risk projects.

During the year, CAF allocated 44 percent of approvals to Ecuador in the *social development* area. The Corporation approved USD 200 million to finance investments in basic sanitation (potable water and sewage), and community and rural development through the Environmental Sanitation for Community Development Program (Promadec). The objective of the program is to improve the quality of life and sanitary conditions of the population in rural areas and small and medium-sized municipalities with greater deficiencies in access to basic services in the country. CAF also contributed to financ-

ing the sanitary sewer project in the north part of the city of Guayaquil, which will benefit 172,000 low-income citizens.

Also related to the social area, the Corporation approved USD 250 million to finance the Human Development Bonus Support Program, with the purpose of consolidating social policies and offering access to health services and education to the most vulnerable population.

CAF also approved USD 174 million to the *productive sectors*, aimed at financing investment projects of several business groups to expand their production capacity and working capital. The Corporation also approved USD 126 million channeled through the financial sector for SMEs, the segment that most stimulates employment.

In addition, the *infrastructure* area received USD 123 million for the construction of a new bridge over the Babahoyo River. The project will improve the flow of traffic, which will generate important advantages in terms of access to services, markets, and raw materials.

CAF also approved USD 180 million to the State for macroeconomic stability and structural reforms. The main objective is to support fiscal sustainability and improve the country's public debt profile, in line with the public debt management objectives of the Government. The loan guarantees the availability of budgetary resources to address other priorities in the country's development policy.



In a meeting with President Rafael Correa, CAF ratified its support to Ecuador and proposed an operations program for the period 2007–2011 to attend both the public and private sectors. The Corporation finances projects in the social, infrastructure, and energy areas.

In January, CAF executive president, Enrique García, attended as a guest of honor the ceremony where Rafael Correa initiated his mandate as constitutional president.



Other contributions to sustainable development in Ecuador

During 2007, CAF granted USD 3 million to Ecuador in cooperation funds. The resources were directly channeled to beneficiaries or through various special programs developed by the Corporation:

Governance

- *Governance and Political Management Program:* Signed agreements with the *Pontificia Universidad Católica* in Guayaquil and the *Pontificia Universidad Católica* in Ecuador to disseminate knowledge to build management with a comprehensive vision. One hundred and eighty-five leaders from local governments were trained.
- *Leadership for Change Program:* Trained 525 leaders from Cuenca, Guayaquil, Manta, and Puyo. The program was initially implemented in alliance with *Escuela Superior Politécnica del Litoral (ESPOL)* and included representatives of 65 municipalities which initiated community and neighborhood projects.
- *Tools for Governance and Consensus Building Program:* Conducted four workshops in the areas of negotiation, strategic communications, leadership and persuasion, with a multidisciplinary group of 40 leaders.
- *Regional Program for Updating and Improving Local Management (PRAMEG):* Implementation of the program in the municipalities of Santa Loja and Rosa. The initiative aims at converting the municipal property registries into an efficient tool for improving planning capacities and financial management, increasing the social welfare indices of citizens.

Competitiveness

- *Competitiveness Program:*
 - Agreement with the Automotive Industry Chamber of Ecuador (Cinae) to strengthen the capacities of the sector's suppliers, enabling their competition in the world market.
 - Agreement with CORPEI, to enable the identification and definition of exportable gourmet products in an effort to diversify and increase the country's exports.
 - Agreement with Fedexpor to implement a project to identify problems of logistic development and generate tools to improve the competitiveness of exporters.
 - In cooperation with FOME, implemented the International Training Seminar to Create a Favorable Entrepreneurial Environment to Promote Small Enterprises.
 - Agreement with *Asoexpebla* for the development and improvement of fishing products with value added for export.
- *Corporate Governance Program:*
 - International Seminar on Best Corporate Governance Practices.
 - Workshops on the Diagnosis of Corporate Governance Practices in the Andean Area.



The resources granted to Novopan, S.A. and Lafarge Cementos, S.A. in Ecuador are examples of CAF's co-financing in 2007. The operations are framed within the strategy to support the productive sector of shareholder countries. CAF's support enabled a local bank to participate in the co-financing under special conditions required by these types of operations.



Environment

- *Biodiversity Program (BioCAF):*

Concluded the formulation of the proposal "Financing opportunities for biodiversity businesses, and support for the development of market activities in the Andean Region". The initiative supports issues related to biotrade in several Andean countries.

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

- Río Calope Project: 16.6 MW hydroelectric plant. The project is expected to receive EUR 1,105,290.
- 10 MW *Hidro Victoria Central de Filo de Agua*. The project is expected to receive EUR 528,151.

Social development

- Supported the design of the Potable Water and Sewage Master Plan for the city of Riobamba.

- Allocated resources for the preparation of the Zoning and Sustainable Development Plan for the inner city in Loja.

- Supported the VII Ecuadorian Forum "Microfinance for all with fiscal and financial sustainability"; held in the city of Ambato promoting best practices for the development of microfinance and micro enterprises.

- Allocated resources to the Rural Financial Network for the development of a methodology to measure the social impact of microfinance in Ecuador.

- Approved lines of credit and equity investments for the *Fondo País* Ecuador, *Fideicomiso* CFN, and *Fideicomiso* GRP to finance SMEs.

Social responsibility

- *CAF Social Action for Music Program:*

Provided choral education in Quito and initiated the program in Guayaquil. The initiative benefits 1,400 children and youth and close to 35 conductors acting as multiplying agents. Continued alliance with *Fe y Alegría*, with presence in eight schools in Quito.

- *Local opportunities:*

- *Casa Campesina* in Cayambe: Improved the productivity, marketing, and access to credit for the district's communities.

- *Populorum Progressio* Ecuadorian Fund: Production, marketing, and local financing systems in the district of Pedro Carbo.

- Supported the wives of the Galapagos' fishermen through employment opportunities and increased incomes through micro-entrepreneurship in a bakery shop.

- *Skills training and heritage rescue:*

Initiated projects in three workshop schools (two in Cuenca and one in Quito).

- *Social Action for Soccer:* Continued support for the Sports Program in six soccer schools.

- In alliance with *Corporación Fútbol y Mentalidad Ganadora* and the participation of *Universidad de los Hemisferios*, the initiative benefits more than 700 children and youth.

- National CAF tournament.



Approvals Ecuador. 2007

Client/Executing agency	Operation	Objective	Amount (in USD millions)	Term (years)
Republic of Ecuador- Ministry of Public Works	Segmented bridge over the Babahoyo river	Facilitate traffic flow between La Puntilla and Durán. Improve the living conditions of the Durán population working in Guayaquil and facilitate their access to services.	123	18
Municipality of Guayaquil	Sanitary Sewage Project in the Northern Sector of the Municipality of Guayaquil	Improve the living and health conditions of a population estimated at 172,000 in three marginal urban sectors of the parrish of Tarqui: Bastión Popular, Cooperativas Varias, and Los Vergeles.	27	15
Republic of Ecuador- Banco del Estado	Environmental Sanitation Program for Community Development (Promadec)	Support the program to improve health conditions in the smaller municipalities. Strengthen the design, implementation, and monitoring of sectoral policies.	200	18
Republic of Ecuador- Ministry of Economy and Finance	Program to Support the Human Development Bonus	Support the Government in the development and consolidation of its social policies, financing the program to promote access and permanence to basic education and health services of the most vulnerable population.	250	18
Republic of Ecuador- Ministry of Economy and Finance	Contingent line of credit	Support the Government in the implementation of the strategy to improve the administration of public debt.	180	18
IPAC, Lafarge Cements, S.A., Otecel, Nirsa, Novopan, Pronaca-Enaca- Inaexpo, La Favorita and Impsa Andina Supermarkets	Corporate loans and revolving lines of credit	Acquire capital goods, finance working capital, and expand the generating capacity.	174	Various
Bolivariano, Citibank, Internacional, Guayaquil, del Pacífico, del Pichincha and Produbanco Banks	Lines of credit, subordinated loans, capital investments, equity inves- tments, and guarantees	Finance investment projects, letters of credit and working capital.	126	Various
Procredit Bank	Lines of credit and guarantees	Finance working capital for the micro- enterprise sector.	6	Various
Various beneficiaries	Operations with cooperation funds	Various.	3	Various
Total			1,089	

The Road Infrastructure Program for the Mass Transit System contributes to the improvement of road network conditions in the city of Quito, through the construction and improvement of infrastructure to integrate electric and large capacity buses into the transportation system. The project has enabled the establishment of the necessary conditions to offer an efficient, safe, fast, and dignified service, with a positive impact on the welfare of the population with lowest income levels.

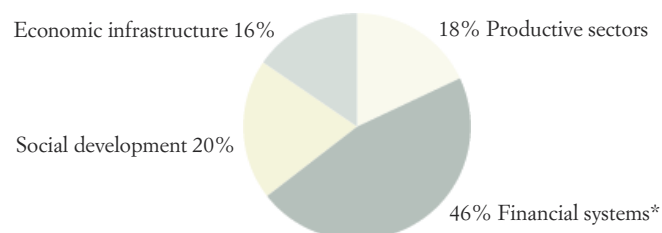


The project of the Association of Agricultural Exporters Unions of Peru (AGAP) seeks to disseminate, train, and implement minimum standards of Best Labor Practices and Social Responsibility in the Peruvian agricultural export sector to ensure a fair relationship and social peace with the workers, which in turn will translate into an improvement in the sector's competitiveness and productivity.

The program's activities include the elaboration of the diagnosis, sensitization and implementation of Best Labor Practices and Social Responsibility in 60 agricultural farms and packaging companies in seven valleys of the Ica and Lima regions. The enterprises involved in the project generate employment for 28,000 workers and produce asparagus, citric fruits, onions, pecans, mangoes, eggfruit, avocados, and grapes.



Approvals by strategic area 2007



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

IN THE LAST FIVE YEARS (2003–2007) CAF has approved operations to Peru for USD 3,775 million, an average of USD 755 million per year, equivalent to 16 percent of total approvals. Disbursements amounted to USD 3,198 million (22 percent of disbursements to shareholder countries), an annual average of USD 640 million.

During 2007, CAF approved operations for USD 1,180 million, representing 18 percent of the total, while disbursements amounted to USD 1,730 million (30 percent of the total). At the end of the period, the portfolio reached USD 1,809 million, equivalent to 19 percent of the total. An important portion of the approvals (USD 400 million) was allocated to sovereign risk projects.

During the year, CAF allocated USD 695 million to *financial systems* to support foreign trade and working capital operations, paying special attention to the SME segment. CAF also allocated USD 60 million to the *productive sectors* to support the expansion of a more competitive business base to address the challenges of trade integration with the rest of the world. Resources were allocated to finance private investment initiatives, mainly in the areas of energy and marketing of basic products.

The Corporation also allocated 20 percent of approvals to the *social development* area. Thus, USD 237 million were approved for the Social and Infrastructure Investment Program to Fight Poverty, whose main objective is to support 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 poor population and promote opportunities for economic and social development as a policy priority within the framework of the country's decentralization program.

CAF also allocated approximately 16 percent of the resources (USD 184 million) to the area of *economic infrastructure* to develop the transportation and energy sectors. Financing is aimed at the construction, rehabilitation, and improvement of secondary roads, given their great impact on the development of communities. Resources will be used in the partial implementation of the National Rural Electrification Plan 2005–2014, which seeks to provide efficient and sustainable electrification services through new connections to households, businesses, and public services in rural areas.



Left:

CAF approved resources to strengthen and consolidate the Special Olympics Program, to facilitate personal development and social inclusion for individuals with intellectual handicaps through the practice of sports. The contribution will help strengthen the organizational infrastructure, which in turn will enable program continuity.



Other contributions to sustainable development in Peru

During 2007, CAF granted USD 4 million to Peru in cooperation funds. The resources were directly channeled to beneficiaries or through the various special programs developed by the Corporation:

Governance

- *Governance and Political Management Program:*

Signed agreements with the *Pontificia Universidad Católica del Perú*. Three hundred and sixty seven students registered in the cities of Arequipa, Cusco, Huancayo, Tarapoto, Trujillo, while four groups registered in Lima.

- Trained majors, council members, presidents of neighborhood committees, departmental council members, municipal technical teams, politicians, and leaders from organizations that work in the municipalities on special subjects of interest.

- *Leadership for Change Program:* For the second consecutive year, implemented the program with the support of the Governance Institute of *Universidad de San Martín de Porres*. Trained 543 natural leaders.

- *Regional Program for Updating and Improving Local Management (PRAMEG):*

Implemented the pilot plan in the municipalities of Jesús de María and Tacna, both from the Department of Tacna. The diagnoses were based on the strategic objectives defined by the entities, applying a pyramid approach to interrelate these objectives with the management processes. Prepared action plans to facilitate decision making.

Competitiveness

- *Competitiveness Program:*

Initiatives to develop clusters:

- Promoted competitiveness in the software industry through the decentralization of the culture of quality.
- Promoted productive development of the mango chain in the Lambayeque region.
- Promoted the entrepreneurial capacity: Program to Strengthen Competitiveness in the Agricultural Export Sector; approved the project Unique Entrepreneurial Window of the Regional Government of Lambayeque, to improve the business environment.
- Continued support to the management of *Proinversion* for the design and implementation of private sector participation mechanisms to finance and implement infrastructure projects.
- Supported urban planning management, with special attention to the design of public transportation systems.
- Promoted best practices in the labor and business social responsibility areas, in alliance with the Agricultural Exporter's Association of Peru (AGAP).

- *Corporate Governance Program:*

Participated directly in the presentation workshops of the diagnosis of corporate governance practices in the Andean area, the discussion of actions related to the subject, and the national award ceremony of Best Corporate Governance practices.

Left:

The First Women's Regional Contest to fight poverty was launched in the city of Lima. The initiative –supported by CAF, the International Fund for Agricultural Development (FIDA), the German Technical Cooperation Fund *Gesellschaft für Technische Zusammenarbeit* (GTZ), and the Sierra Sur Project of the Ministry of Agriculture– seeks to promote innovative experiences of entrepreneurial rural women and their contributions to the fight against poverty.

In February, CAF signed a financial assistance agreement with *Petróleos de Perú* for the modernization and improvement of the Talara refinery in Piura. The ceremony was held at Petroperú headquarters, with the participation of Alan García, the President of the Republic of Peru, and Enrique García, CAF's executive president.



Environment

- Supported the completion of the environmental and social performance audit of the Camisea I Project, which gave birth to the Corrective Actions Plan that will enable conservation measures for vegetation coverage and the appraisal of biodiversity through scientific classification and systematic recovery in the project's area of influence.
- Continued support to build consensus between the National and Regional Government, and the civil society within the framework of the implementation of the Environmental and Social Management Program of the Southern Inter–Oceanic Road Corridor (CVIS). The consensus enabled the implementation of conservation projects in the protected areas of Manu and Tambopata. Regularization of the rural and forest registries in the areas of indirect CVIS influence and initiation of productive projects to consolidate ecotourism service capacities to benefit the local population, especially indigenous groups.
- Supported the Ministry of Housing, Construction, and Sanitation in preparing the “Rules for the Management of Solid Waste from Rubble or Construction”.

Social development

- Provided emergency humanitarian aid to the areas affected by the earthquake.
- Contributed to the decentralization process to improve the management of infrastructure and basic public services initiatives in the regions of La Libertad and Cajamarca.
- Organized and promoted policies for the Vulnerability Reduction Program caused by the *El Niño* Phenomenon.
- Allocated resources to the Insurance and Reinsurance Company *La Positiva* to develop the micro–insurance project in Peru.
- Conducted the II CAF Forum on Micro–Finance “Restructuring and Opportunities in the Micro–Financing Industry”.
- Optimized the management of State's services and processes affecting foreign trade.
- Conducted structural evaluations of bridges and works of art through static and dynamic charge tests.
- Updated passenger demand of Line 1 in the Lima Urban train.
- Conducted prospective and planning studies for the design of priority public policies for the country's development.
- Designed Urban Development Plans and Strategic Road Projects for the city of Pisco.

Social responsibility

- *CAF Social Action for Music Program:* Strengthened orchestral and choral capacities through CAI and VAC workshops. Agreement with *Fe y Alegría* to incorporate a larger number of children to choral activities.
 - Implemented initiatives to strengthen the economy of 2,500 rural women in Lima, San Martín, and Ucayali.
 - Continued support to the development of local cooperation networks in eight districts in the province of Huaura and one in Junin.
 - Strengthened 26 rural centers for alternative training to benefit youth in nine departments throughout the country.
 - Began a training process for educators and leaders in the community of Manchay, to improve the quality of education and its leadership.
 - Initiated the consolidation and expansion of a rural entrepreneurial development and microfinance program in Lambayeque to increase the efficiency of producers.
- *Skills training and heritage rescue:* Completion of the program to train participating youth in the workshop schools of Arequipa, Cusco, and Lima.
- *Social Action for Soccer:* Completion of the Around the Ball Project, and initiation of a new project with the Cantolao Academy in El Callao, in alliance with the San Juan Guayabo Foundation, in the province of Chincha.



Approvals to Peru. 2007

Client/Executing agency	Operation	Objective	Amount (in USD million)	Term (years)
Republic of Peru– Ministry of Economy and Finance	Program for Social Investment and Infrastructure against Poverty	Support the implementation of social and infrastructure projects to improve the living conditions of the vulnerable population, and promote opportunities for economic and social development.	400	18
La Pampilla Refinery	Trade, working capital, and investment projects.	Finance working capital and capital investments.	30	1
San Miguel Industrial, S.A.	Trade, working capital, and investment projects.	Finance working capital and capital investments.	5	1
Wong, S.A., Supermarket Group	Line of credit and subordinated loan	Finance working capital and capital investments.	25	1
Cofide	Corporate loans and lines of credit	Finance foreign trade operations, working capital, and capital investments.	150	1
<i>BBVA Banco Continental, Banco de Crédito del Perú, Scotiabank, Banco de la Nación, HSBC Bank Peru, America Leasing, Banco Internacional del Perú (Interbank)</i>	Lines of credit, subordinate loans, equity investments, and guaran- tees.	Finance working capital for the micro enterprise sector.	545	Various
<i>Cajas Municipales de Aborro y Crédito of Trujillo, Tacna and Arequipa; Edpyme Nueva Visión, Crear Arequipa and Mibanco</i>	Lines of credit, subordinated loans, capital investments, equity investments, and guarantees.	Finance working capital and capital investments.	21	Various
Various beneficiaries	Operations with cooperation funds.	Various.	4	Various
Total			1,180	

The Polyphonic Choir of the Province of Huaura gathers boys and girls from the districts of Carquin, Huacho, Huaura, and Vegueta. Created within the framework of the Peoples' Network Project and CAF's Social Action for Music Program, it promotes traditions, values, and active participation of families. Since its inception, participants have made several presentations in Peru, and recently traveled to the island of Barbados to perform for various audiences.

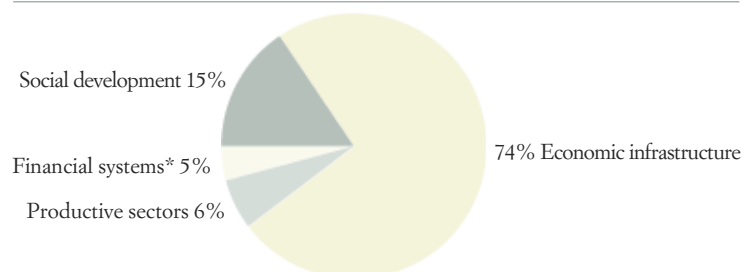


The Yacambú–Quíbor Hydraulic System project consists of the construction of a dam measuring 162 meters over the Yacambú River, and a 24.3 Kilometer long tunnel that will carry water from the upper river basin to the more arid Quíbor Valley. This modern irrigation system will help overcome water deficiencies in Quíbor,

Barquisimeto, and other settlements nearby. Once the project concludes, it is estimated that the state's agricultural output will increase by 35.8%, as the system will enable an increase of the cultivated area from 3,500 to 39,120 hectares. The value of production, as well as direct and indirect employment, is also expected to increase.



Approvals by strategic area 2007



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

DURING THE PAST FIVE YEARS (2003–2007) CAF has approved operations in Venezuela for USD 3,641 million, an annual average of USD 728 million, equivalent to 15 percent of total approvals. Disbursements amounted to USD 1,827 million (13 percent of disbursements to shareholder countries), an annual average of USD 365 million.

During 2007, CAF approved operations for USD 816 million (12 percent of the total) while disbursements reached USD 127 million (2 percent of the total). At year-end, the portfolio totaled USD 1,470 million, equivalent to 15 percent of the total. An important portion of the approvals (USD 725 million) was allocated to sovereign risk projects.

During the year, CAF allocated 74 percent of the approvals to strengthening the country's *economic infrastructure*. Specifically, the Corporation authorized USD 600 million for the *Manuel Piar* Hydroelectric Project, the most recent electricity generation project developed in the Lower Caroní. The objective of the project is to increase electricity generation to cover the demand and improve the efficiency and reliability of the National Electric System. The project is part of a strategic plan for the hydroelectric development of the Caroní River and includes the construction of four hydro-electrical plants. At present, three of the plants have been built and are in operation, contributing with 75 percent of the energy used in the country.

It is worth mentioning that this is the second loan granted by CAF to this project, which, added to the initial USD 300 million loan in 2004, represents approximately 30 percent of the total cost of the Plant.

The Corporation also approved USD 75 million to the *social development* area. The resources will finance the Yacambú–Quíbor System: Infrastructure, Basin Conservation, and Valley Development. CAF has supported this project since 1998 and contributed with more than USD 200 million of the approximately USD 600 million invested by the Venezuelan government. The loan is part of the global financing granted by the Corporation, and its main objective is to promote agricultural development in the state of Lara through the utilization of the Yacambú river, which, after the construction of a reservoir, will be carried through a tunnel that runs through the Andes Mountains toward the Quíbor Valley. In addition, the project will contribute to the supply of potable water for the city of Barquisimeto.

Also in the area of social development, CAF approved USD 50 million to finance the Potable Water and Sanitation for Urban and Rural Zones Program. The general objective of the program is to ensure availability, quality, continuity, and sustainability of potable water and sanitation services in different urban, peri-urban, and rural areas in the states of Amazonas, Anzoátegui, Aragua, Cojedes, Delta Amacuro, Sucre, and Trujillo.

The Corporation also approved USD 90 million to support the *productive and financial sectors*. The resources will be allocated to finance private investment initiatives for corporate projects and lines of credit to financial institutions that channel those funds toward SMEs.



Left:
During 2007, CAF approved operations in favor of Venezuela to strengthen the economic infrastructure of the country. The development of the Manuel Piar Hydroelectric Plant is the most recent energy generation project developed in the Lower Caroní.



Other contributions to sustainable development in Venezuela

During 2007, CAF granted USD 1.3 million to Venezuela in cooperation funds. The resources were channeled directly to the beneficiaries or through the various special programs developed by the Corporation:

Governance

- *Governance and Political Management Program:* Signed an agreement with *Universidad Católica Andrés Bello (UCAB)* for the sixth consecutive year to train local government leaders and their support teams. Trained 133 participants in Caracas, Maracaibo, Maturín, and Valencia.
- *Leadership for Change Program:* Signed an agreement with *Instituto Universitario de Ciencia y Tecnología (IUGT)*, to train 549 leaders from 55 municipalities of seven chosen entities in Aragua, Carabobo, Caracas, Lara, Miranda, Vargas, and Yaracuy.
- *Regional Program for Updating and Improving Local Management (PRAMEG):* Implemented the program in the municipalities of El Hatillo and Girardot to provide them with tools that will enable them to become more efficient, with the ability to plan, manage, and coordinate their actions so available resources are more useful to their citizens, with a modern management structure that ensures higher efficacy in the services rendered.

Competitiveness

- *Competitiveness Program:*
 - Developed production chains and promoted entrepreneurial capacity: Contributed to strengthen the business networks of different sectors in order to improve the productive and commercial abilities of large enterprises and the supply and distribution chains of small and medium-sized enterprises.
 - Contributed to the development of the System to Support the Creation of Enterprises in Venezuela through the implementation of a system that facilitates access of entrepreneurs to training, advisory, incubation, and investment programs with the purpose of energizing and creating new productive units in the country.
 - Implemented a program to train university teachers, focused on the education of future entrepreneurs.
- *Corporate Governance Program:* Participated in events related to the importance of implementing Corporate Governance Practices in state-owned enterprises and corporate governance workshops for family-owned enterprises.



Through the acting program in the Workshop School in Coro and the Workshop School in La Guaira, CAF and AECI contribute to the training and placement of a specialized labor force into the economic activation process and urban renewal of the historic inner city of Coro –declared Cultural Heritage of Humanity– and the Caracas metropolitan coastline devastated by the mudslides of 1999.

CAF supports the Superatec training program for low income youth from the communities of Antimano and La Vega, in the city of Caracas. The project seeks to improve the personal development of students, position them in the formal labor market, and reduce the technological gap that exists in the poor communities of Caracas.



Environment

- *Biodiversity Program (BioCAF)*: Allocated resources for the *Tierra Viva* Foundation to support the production of organic cocoa (agricultural management and organic certification) with small producers located throughout the Henri Pittier National Park.
- *Sustainable Development in Financial Institutions Program*: Conducted the workshop on Best Environmental Practices in Financial Management, directed toward financial sector regulators and banking associations. The objective is to promote reflection on the need to generate agreements or norms on environmental and social issues as a tool to guarantee environmental sustainability and social responsibility in the sector's activities.
- Supported the project "Development of Appropriate Technologies for Construction, Basic Environmental Sanitation, and Alternative Energies: Amazon experiences as a base for starting the Appropriate Technologies Amazon Network" (RETAM).

Social development

- Supported the design, development, and application of a methodology to implement the Community Service Law for Higher Education Students.
- Allocated resources to support the planning and implementation of the VII National Agricultural Census.
- Provided assistance to the municipality of Sucre, in the state of Portuguesa, to produce high quality coffee as a sustainable alternative to the micro-basins of Venezuela.
- Organized and implemented the first seminar-workshop specialized in microfinance—with emphasis on micro-credit evaluation—directed to development banks in the country.
- Allocated resources to *Educrédito* to improve its technological platform.

Social responsibility

- *CAF Social Action for Music Program*: Expanded choral training in Barquisimeto, Caracas, Ciudad Bolívar, Maracay, and Merida. Support involved musical direction and choral workshops.
- Joint work with *Fe y Alegría* to train 100 boys and girls from their schools in Ciudad Bolívar. Implemented a workshop on musical direction for children.
- *Local opportunities*: Concluded the project with the *Proyecto Paria* Foundation aimed at consolidating the productive and marketing capacities of cocoa, as well as community access to health and educational services, and savings and investment possibilities of 2,500 producers and rural communities in Paria, Eastern Venezuela.
- *Skills training and heritage rescue*:
 - Provided youth training in the Workshop School in La Guaira
 - Continued support to the Workshop School in Coro, training youth in six different skills.
 - Continued technical training and labor market placement projects (Superatec), for more than 600 youth, parents, and teachers, with a placement rate in the job market of over 80 percent.
 - Continued support for the "Dream Lab" project in alliance with the Santa Teresa Foundation, the Municipality of Revenga, and other participants.



Approvals to Venezuela. 2007

Client/Executing agency	Operation	Objective	Amount (in USD million)	Term (years)
Bolivarian Republic of Venezuela- <i>Corporación Venezolana de Guayana. Electrificación del Caroní, C.A. (Edelca)</i>	Manuel Piar Hydroelectric Plant Project	Increase electrical generation to cover the demand and improve the efficiency and reliability of the National Electric System.	600	18
Bolivarian Republic of Venezuela	Yacambú-Quíbor: infrastructure, basin conservation, and development of the valley	Promote agricultural development in the State of Lara and contribute to the water supply in the city of Barquisimeto.	75	12
Bolivarian Republic of Venezuela- Hidroven	Potable Water and Sanitation Program in urban and rural areas	Ensure the availability, quality, continuity, and sustainability of the potable water and sanitation services in different areas of the country.	50	12
<i>C.A. La Electricidad de Caracas</i>	Partial credit guarantee	Construct and install a simple cycle gas plant for the generation of electricity with a capacity of 200 MW.	50	10
<i>Banco Mercantil, S.A.C.A.</i>	Lines of credit	Finance investment projects, lines of credit, and working capital.	40	Various
Various beneficiaries	Operations with cooperation funds	Various.	1	Various
Total			816	

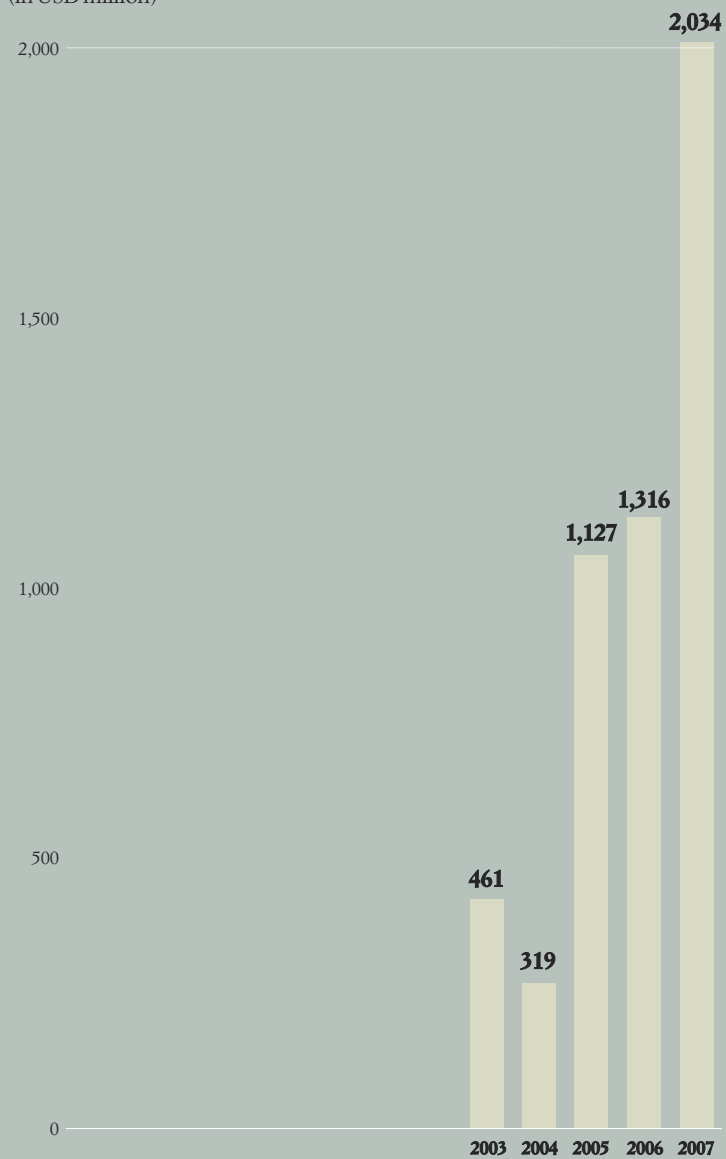
In November, CAF approved a loan for the development of the Yacambú–Quíbor Hydraulic System, located in the western part of the country to support Venezuela’s agricultural development.

The Comprehensive Management of the Water Resources of the Yacambú–Quíbor Basin Program has been conceived as an action plan with a comprehensive vision, guaranteeing and promoting

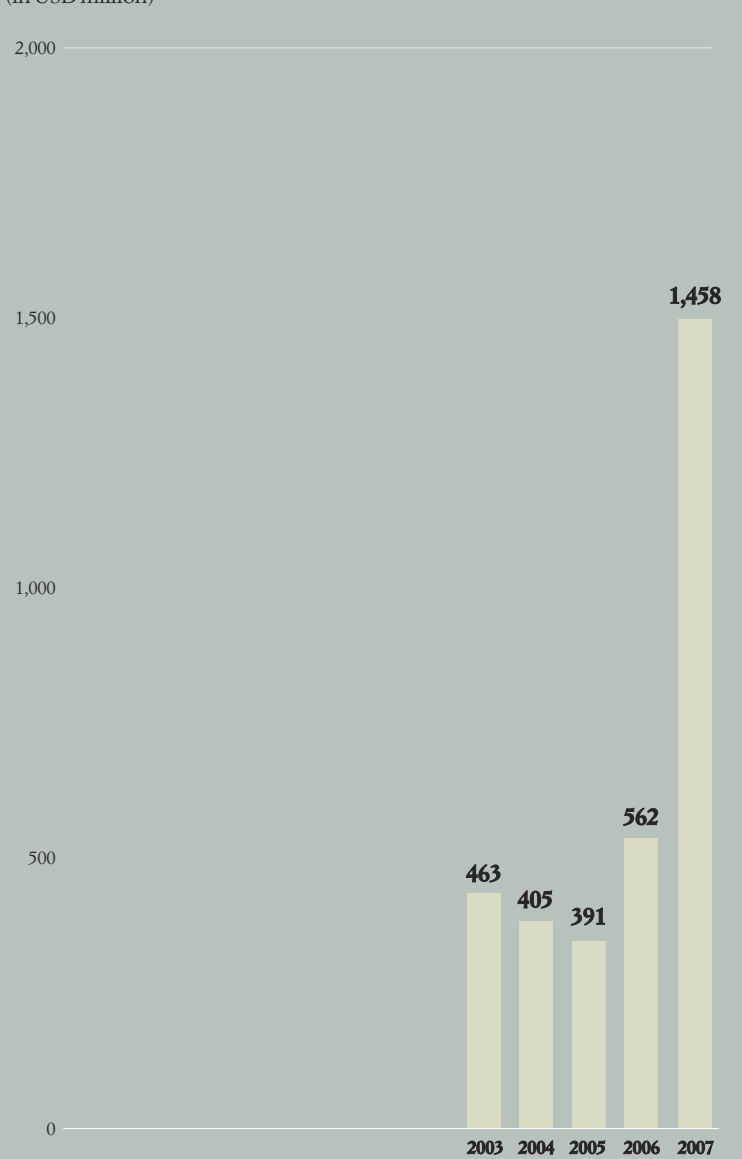
sustainable development in the areas of influence in this system. The initiative has enabled the creation of pilot areas for sustainable agricultural production. One of them is located in the *Cerrito de San José* sector, in the Valley of Quíbor, and constitutes an agricultural–horticultural–flower production system under controlled environmental conditions.



Approvals Series C Shareholders
(in USD million)



Portfolio Series C Shareholders
(in USD million)



DURING THE LAST FIVE YEARS (2003–2007), CAF has approved operations in favor of C Series shareholder countries for USD 5,257 million, which represents an average of USD 1,051 million per year, equivalent to 22.2 percent of total approvals for the period. Disbursements amounted to USD 1,984 million.

During 2007, CAF expanded its operations in the C Series shareholder countries, which was reflected in approvals of USD 2,034 million (31 percent of the total), while disbursements reached USD 1,406 million (24 percent of the total), substantially higher than the average of the last five years. At year-end, the portfolio totaled USD 1,458 million, equivalent to 15 percent of the total portfolio.

It is worth mentioning that during the year, Argentina, Brazil, and Uruguay signed agreements with the Corporation to change their status from Series C shareholders to full members in conditions sim-

ilar to those of the five original members. These agreements contemplate additional contributions to the Corporation's capital, for a joint amount of around USD 1,200 million, and subscriptions to the guarantee capital to close to USD 300 million.

The decision strengthens and expands the presence and participation of Latin American countries in CAF, and contributes to the enhancement and implementation of its Agenda for Comprehensive Development. In addition, Chile decided to increase its participation in CAF, making an important capital contribution that amounted to USD 50 million.

The Corporation also conducted several programming missions and visits to countries in the region, aimed at identifying and agreeing with the governments of shareholder countries short and medium-term action programs.

Argentina

The Rincón Santa María–Rodríguez electric line will enable the increase of energy transmission between Argentina, Brazil, and Uruguay.



DURING THE PAST FIVE YEARS (2003–2007) CAF has approved operations for Argentina amounting to USD 1,276 million, an average of USD 255 million per year, equivalent to 5.4 percent of the total approved for the period. Disbursements reached to USD 431 million, an annual average of USD 86 million.

During 2007, CAF approved operations for USD 204 million, while disbursements amounted to USD 333 million. At year-end, the portfolio reached USD 421 million, equivalent to 4.4 percent of the total. An important portion of the approvals (USD 155 million) was assigned to sovereign risk projects.

The resources have been mainly allocated to infrastructure integration projects in the energy and transportation sectors. It is worth mentioning the approval of USD 110 million for the partial financing of the Road Works for the Integration of Argentina and Paraguay program. The *Entidad Binacional Yacyretá* (EBY) will be the executing agency. The program, with an estimated total cost of USD 182 million, is composed of seven road projects, six of which are located in areas close to the city of Posadas, in northern Argentina, and one in the city of Encarnación, in southern Paraguay, close to the Encarnación–Posadas International Bridge that joins both cities and the access roads. CAF will contribute 60 percent of the financing and the Argentinean government will finance the remaining 40 percent (USD 72 million).

The Corporation also approved USD 45 million for the partial financing of the Expansion of the Electric Energy Transportation Capacity in the province of Buenos Aires. The loan for the province is guaranteed by the Republic. The estimated cost of the project is USD 69 million. CAF will contribute 65 percent of the financing and

the province of Buenos Aires will finance the remaining 35 percent (USD 24 million).

In the last five-year period CAF also approved non-reimbursable resources for technical cooperation amounting to USD 1 million to conduct several studies: a Sustainable Tourism Development Plan for the province of Jujuy; complementary institutional, legal, economic, and environmental engineering studies required for the implementation of dredging and buoying works in the Paraguay–Paraná Waterway; support *Banco de Inversión y Comercio* (BICE) in the areas of international financing and credit rating to enable access to capital markets and leverage with its operations and resources; support the Ministry of Federal Planning in the implementation of the project “National Urban System Competitiveness, Development, and Management–Phase I”, led by the Undersecretary for Territorial Planning of Public Investment; support the governments of Argentina and Bolivia in the preparation of a Border Plan for the two nations in the provinces of Jujuy and Salta in Argentina, and the departments of Potosí and Tarija in Bolivia; and support the project “Promotion of Entrepreneurial Links in Argentina” through the Empretec Foundation related to *Banco de la Nación Argentina*.

In the area of microfinance, CAF supported the implementation of the First Annual Seminar on microfinance with the Micro-credit Network of Argentina. CAF also approved the investment of a trust fund of guarantees for SMEs with *Fogabe*.

CAF also supported the seminar “Establishing the basis for competitiveness and growth with equity” in Córdoba, in coordination with *Fundación Mediterránea*, and invested in the CAP Ventures Fund, aimed at strengthening SMEs with exporting potential.

On October 5th, in an act held at *Casa Rosada*, (where the government of the Republic of Argentina resides) in the presence of the President of the Republic Néstor Kirchner, the Chief of Cabinet, Alberto Fernández, and other high ranking government authorities, CAF's executive president, Enrique García, and the Minister of Economy and Production, Miguel Peirano, signed an agreement whereby Argentina agreed to become a CAF Series A shareholder. Through this act, Argentina subscribed shares of ordinary capital for USD 543 million, adding to Argentina's current participation of USD 100 million, which will increase the country's subscribed capital to USD 643 million. A contribution of USD 126 million to the Corporation's guarantee capital was also agreed.

On December 11th, on her first day as President of the Republic, Cristina Fernández de Kirchner met CAF's executive president, Enrique García, in *Casa Rosada*. Also present were the Minister of Economy and Production, Martín Lousteau, the Minister of Planning, Julio de Vido, and other high level national authorities. During the meeting, the Minister of Economy and Production, Martín Lousteau and President Enrique García signed two loan contracts for USD 280 million to partially finance the *Comabue-Cuyo* Electric Interconnection Project (USD 200 million) and the Rehabilitation and Pavement Project for the *El Pebuenche* International Pass (USD 80 million). Together, they complement a portfolio of approvals to Argentina of over USD 1,300 million.



In the *Garrafão do Norte–Nova Esperança do Piriá* –a 44 Kilometer route— CAF finances five sub–sections of bridges which connect the communities of *Vila do Pote*, *Tatajubinha*, and *Esperança do Piriá*. Currently, these bridges, made of wood, difficult the transit of producers, who carry mostly perishable products. Financing contributes to the reduction of poverty in the region and promotes socioeconomic development, enabling the road transportation of products even during the rainy season. The community was a key factor in determining the priority of the road project in public assemblies.





In the presence of the President of the Federative Republic of Brazil, Luiz Inácio Lula da Silva, CAF's executive president, Enrique García, and the Minister of Planning, Budget, and Management, Paulo Bernardo Silva, signed an agreement whereby Brazil agrees to become a Series A shareholder of the Corporation.

The signature formalized the subscription of CAF's ordinary shares for USD 467 million, which added to the current shareholding of Brazil of USD 132.3 million, the subscribed capital will increase to USD 599.3 million. In addition, Brazil would contribute USD 126 million to CAF's guarantee capital.

DURING THE PAST FIVE YEARS (2003–2007) CAF has approved operations for Brazil amounting to USD 3,207 million, which represent an average of USD 641 million per year, equivalent to 14 percent of the total approval for the period. Disbursements amounted to USD 1,220 million (8.5 percent of the total disbursed during the period), which represent an annual average of USD 244 million.

During 2007, CAF approved operations for USD 1,518 million, representing 23 percent of the total, while disbursements reached USD 879 million (15 percent of the total). At year-end, the portfolio totaled USD 807 million, equivalent to 8.4 percent of the total portfolio.

Throughout the year, the Corporation approved USD 1,270 million to the *productive sectors* through the financing of lines of credit for foreign trade, working capital, and investment projects of enterprises in sectors with high value added.

CAF also allocated more than USD 200 million for urban and social development projects. In particular, it assigned USD 85 million for the implementation of the Road Program in the state of Pará, USD 60 million for the water and drainage management infrastructure in the Federal District, as well as several other projects in other municipalities. The operations contribute to the improvement of second-

ary road connectivity, and facilitate the population's access to basic services.

As part of the Program to Support Municipal Governments (PRAM), approved in 2006 for USD 150 million, resources were authorized for the following projects:

- Macro-drainage System, Environmental Recovery and Urban Development Phase I, for USD 15 million for the municipality of Canoas. The loan was granted to reduce urban infrastructure vulnerability in the central and western regions of the municipality due to floods that directly affected 60,000 families.
- USD 12 million for urban integration in the municipality of *Feria de Santa Ana* for the construction of road infrastructure in the urban areas of the municipality. The objective is to reduce the risk of accidents and facilitate mobility between the city and its suburbs.
- Social Integration Program of the Sofocaba municipality, for USD 43 million, for the construction of urban road infrastructure to facilitate trade between the city and its suburbs. At the same time, the Corporation approved a capital investment of USD 3 million in the Microfin Fund, the first financing fund for the microfinance sector.

Uruguay

In an act held at Mercosur headquarters in Montevideo, in the presence of the President of the Oriental Republic of Uruguay, Tabaré Vázquez, the Minister of Economy and Finance, Danilo Astori, and other top government authorities, CAF's executive president, Enrique García, and the President of the Central Bank of Uruguay, Walter Cancela, signed an agreement whereby Uruguay will become a

Series A shareholder of the Corporation. The signature formalized the contribution of ordinary capital shares in CAF for USD 137 million, which, added to the current participation of this country of USD 43.7 million, will increase its subscribed capital to USD 180.7 million. In addition, Uruguay will subscribe USD 36 million to CAF's guarantee capital.



DURING THE PAST FIVE YEARS (2003–2007), CAF has approved operations for Uruguay amounting to USD 205 million, an average of USD 41 million per year. Disbursements reached USD 90 million (18 percent of the total resources disbursed).

During 2007, CAF approved operations for USD 115 million while disbursements reached USD 62 million. At year-end, the portfolio totaled USD 62 million. All approvals in 2007 were allocated to sovereign risk projects.

CAF has supported Uruguay since 2002, when it partially financed the program for investment in integrative road infrastructure. At present, the Corporation has approved three loans for this program, the most recent of which was approved in 2007 for USD 70 million, in favor of the National Development Corporation (CND) and guaranteed by the Republic, to partially finance the Road Infrastructure for Integration Program, which facilitates connection and trade with other Mercosur countries. It should be noted that a subsidy was approved through the Compensatory Financing Fund (FFC), a mechanism created by CAF to compensate interest rates to favor initiatives of high impact in the development of countries.

The Corporation also approved USD 28 million to the National Administration of Power Plants and Electrical Transmissions (UTE) to partially finance the *Punta del Tigre* Thermal Power Plant. It is

the third phase of the project, which consists in the incorporation of two additional generating units, with identical characteristics to those of Phases I and II. The incorporation will also require –in addition to the expansion of the sub-station– an increase in the capacity of auxiliary systems (a water treatment plant and a liquid fuel centrifugal plant). A subsidy was also granted for this operation with resources from the FFC.

The Corporation also approved USD 17.5 million to *Obras Sanitarias del Estado* (OSE) to partially finance the Potable Water Project in the Metropolitan System of Montevideo. The project consists of the design and construction of the System's Sixth Pumping Line. The objective is to improve the supply and reliability of potable water service for close to 1.7 million people. The operation also benefits from the subsidy from FFC with the consequent reduction in the financing costs of the country.

CAF also approved the creation of the *Emprender* Fund, an initiative led by Prosperitas Capital Partners, other multilateral institutions, the CND, and a group of investors. The Fund offers assistance to entrepreneurs with feasible ideas and projects in dynamic economic sectors with the potential to become successful enterprises. Together with the financing, the Fund helps entrepreneurs define value proposals, develop business plans, and transform innovative ideas into real businesses.

On March 27, CAF approved a loan in favor of the National Administration of Power Plants and Electrical Transmissions (UTE) to partially finance the implementation of the third phase of the *Punta del Tigre* Thermal Power Plant Project, located in the department of San José in Uruguay. The purpose of this project is to contribute to the stability, safety, and reliability of the electric system in Uruguay, reducing failures in the supply of electric energy by incorporating thermal backup equipment to the existing generation facilities.



Chile

On November 9th, in an act celebrated in Santiago, Chile, in the framework of the XVII Ibero–American Summit of Chiefs of State and Government, the executive president of CAF, Enrique García, and the Executive vice–president of Corporación de Fomento de la Producción (CORFO) Carlos Álvarez, signed an agreement whereby the Republic of Chile, current shareholder of the Corporation, increased its shareholding by USD 50 million.

The Minister of Foreign Relations, Alejandro Foxley, acting as chairman, highlighted the commitment of President Michelle Bachelet to Latin American integration and her comprehensive vision toward the region, as well as her desire for a greater presence of Chile in CAF. He also highlighted the relevant role of the Corporation in specific projects, such as the Bioceanic Corridor that involves Bolivia, Brazil, Chile, and Peru.



On April 18th, the President of the Republic of Chile, Michelle Bachelet, rendered an official visit to CAF's headquarters to advance and strengthen the cooperation and regional integration processes. During the visit, Chile's Minister of Foreign Affairs, Alejandro Foxley, and CAF's executive president, Enrique García, signed a memorandum of understanding to strengthen and expand the relations between Chile and the Corporation.

Dominican Republic

In March, CAF's executive president, Enrique García, visited the Dominican Republic and met with its President, Leonel Fernández, and the Finance Secretary of State, Vicente Bengoa.



In the Palace of *La Zarzuela*, His Majesty King Juan Carlos received CAF's executive president, Enrique García; CAF's representative in Spain, Germán Jaramillo; and the Director General of International Financing from the Ministry of Economy and Finance, Isabel Riaño.

ON NOVEMBER 26TH, CAF ESTABLISHED a Country Office in Madrid, with the purpose of strengthening the Corporation's presence and relations with the Kingdom of Spain, and consolidating ties with other European countries. The inauguration reaffirmed CAF's profound integrating vocation, beyond Latin American borders, and opened an important space for European investment toward the region. In 2002, Spain became the only non-Latin American country to become a CAF shareholder.

The financial dynamics of the Corporation in favor of its shareholders has been a major determinant in the activity of goods and services enterprises of the European Community, which have participated in investment projects for an amount close to USD 2,400 million. To this respect, CAF foresees stronger ties between Spain and Latin America, and counts with an European ally to disseminate best practices in the region.

During 2007, CAF's collaboration agreements in the Ecuador-Spain Debt Exchange Program are noteworthy. The agreements, framed within the Ten-year Education Plan in Ecuador, represent a total investment of USD 14.4 million. It is also worth mentioning the signing of a protocol with the Spanish Agency for International Cooperation (AECI) for over EUR 5 million, which consolidates and enhances the joint effort to contribute to social development in Latin America through heritage rescue and the placement of low income

youth in the labor market. With this new agreement for the period of 2007–2008, six new Workshop Schools will benefit Bolivia, Dominican Republic, Ecuador and Peru.

Other relevant initiatives include: the creation of the Latin American Association of Port Quality (ALCP), founded in a joint effort among CAF, the Spanish Valencia Port Foundation, and the *Fundación Marca de Garantía* of the autonomous government of Valencia; the agreement to acquire nine million tons of CO₂ in carbon credits through the Clean Development Mechanism (MDL); and the signing of the Framework Cooperation Agreement with the Ibero-American General Secretariat (SEGIB) which will enable the union of institutional capacities to promote economic, social, cultural, and technological development in the Ibero-American nations.

At the opening of the new office, CAF's executive president, Enrique García, met with His Majesty King Juan Carlos of Spain, the second Vice-president and Minister of Economy, Pedro Solbes, and other government and private sector personalities.

President García also participated in the Annual Conference of the Madrid Club, in the IX Latibex Forum, in the *Expansión-Recoletos* Newspaper Seminar on Infrastructure Development and Opportunities in Ibero-America, and in the international conference "The Future of Higher Education in Latin America and its Role in Development".

Costa Rica

In the past five years (2003–2007), CAF approved operations for USD 248 million to Costa Rica, of which 60 percent was allocated to programs and projects related to oil and electricity transportation, with the aim of supporting investments of the Oil Refining Enterprise of Costa Rica (Recope) and the Electricity Institute of Costa Rica (ICE).

During 2007 it is worth mentioning, the approval of a loan for USD 100 million to ICE to partially finance the investment program of the electricity and telecommunications enterprise for the 2008–2010 period. The projects are expected to strengthen the competitive capacity of this important state enterprise in order to respond to the challenges derived from Costa Rica's insertion into the global economy.

The Corporation also approved USD 28 million to various financial institutions to finance foreign trade operations and the development of micro and small enterprises.

In the area of microfinance, CAF approved a line of credit for USD 10 million in favor of Improsa Bank. It also supported the II Community Bank Forum held in the city of San José.

Panama

CAF disbursed USD 36.5 million during 2007 for the implementation of two road infrastructure projects: the Inter–Oceanic Corridor, and the Road Rehabilitation and Improvement Program.

Paraguay

During 2007, the Corporation disbursed more than USD 6 million as part of the financing for the Rehabilitation and Pavement of Integration Corridors project, National Route 11, and Branch Road to National Route 10, designed to upgrade the country's physical infrastructure within the Integration Corridors Program in the Eastern region of Paraguay.

To support the micro–enterprise, CAF approved operations for USD 6 million, that were channeled through specialized financial institutions.

Trinidad and Tobago

CAF maintains an investment in the Dynamic Equity Venture Fund which supports SMEs with high growth potential.

Other contributions to sustainable development

During 2007, CAF approved approximately USD 8.6 million to Argentina, Brazil, Costa Rica, Dominican Republic, Mexico, Panama, Paraguay, and financed other operations that supported the implementation of the Corporation's Agenda in competitiveness, integration, social development, governance, microfinance, culture, community development, and the environment.

It is worth noting the opening of the Governance and Political Management Program in Mexico with the George Washington University; CAF's support to the Commission on Administrative Efficiency and State Reform in Costa Rica; the Program to Develop Strategic Productive Chains in Panama; the strengthening of the Management Capacities of the Office of the Comptroller General of the Republic in Paraguay; the social development and border integration; the leadership program for competitiveness organized by Georgetown University; the dissemination of research; the creation of cultural, educational, sport, and intellectual spaces; and the management of sovereign investment funds, among others.

These initiatives were mainly supported with technical cooperation resources from the Technical Assistance Fund, The Human Development Fund, and the Spanish Consultancy Fund.

Main operations approved to the Series C shareholder countries and multinational operations 2007

Country/Client/Executing agency	Operation	Objective	Amount (in USD million)	Term (years)
Argentina			204	
Republic of Argentina	Expansion of the transportation capacity of electric energy in the Province of Buenos Aires	Expand and increase the power availability of the energy transportation capacity to meet demand in the province of Buenos Aires.	45	12
Republic of Argentina	Program for Road Integration between Argentina and Paraguay	Rehabilitate the road infrastructure between Argentina and Paraguay to solve the transit problems in the areas that are close to the cities of Posadas (Argentina), and Encarnación (Paraguay) and facilitate the flow of people and trade between both countries.	110	15
Fluviomar	Corporate loans and lines of credit	Expand the cargo transportation capacity of the Paraguay-Paraná river system.	12	10
Banco Bice y Banco Columbia	Lines of credit	Finance international trade, working capital and capital investments.	37	Various
Brazil			1,518	
Florianópolis Municipality	Rehabilitation of the Road System and Pedestrian Circulation	Improve the flow of vehicles and pedestrians in the municipality, and promote the development of tourism.	12	10
Ananindeua Municipality	Municipal Urban Development Program	Improve the social, urban, and environmental conditions in two excluded urban areas in the municipality of Ananindeua (Jaderlândia y Maguariaçú) in a period of three years, to benefit around 30% of the population.	15	10
Empresa Brasileira de Telecomunicaciones (Embratel)	Telecommunication Assets Investment Plan	Modernize and expand networks, data technology, internet, and other telecommunications assets.	31	Various
Federative Republic of Brazil	Program for the Management of Potable Water and Drainage Infrastructure in the Federal District	Contribute to reduce deficiencies in the rain water drainage system as well as environmental recovery and institutional strengthening.	60	10
State of Pará	Road Infrastructure Program for Regional Development	Rehabilitate and pave 407 km. of secondary roads that join municipal heads, agricultural, turistic, and mining development axes, with paved main roads in 14 municipalities to favor the agricultural and touristic potential.	85	15
Fortaleza Municipality	Municipal Drainage Program in Fortaleza	Optimize the urban rain water drainages, recover and preserve the environment, and clean the hydrographic basins of the municipality.	45	16
ABN AMRO Real, Bradesco, do Brasil, Itaú, BBVA Itaú, Industrial y Comercial (BIC), BNDES, Safra, Santander Banespa, Votorantim, HSBC Banks, and Uniao de Bancos Brasileiros (Unibanco)	Lines of credit	Finance foreign trade, working capital, and capital investment operations in the productive sectors.	1,270	Various
Costa Rica			128	
Electricity Institute of Costa Rica (ICE)	Corporate loans	Partially finance the company's investment program for the electrical generation and transmission for the 2008-2010 period.	100	15
Lafise, Improsa, and Interfin Banks	Revolving lines of credit	Finance foreign trade, working capital, and capital investment operations in the productive sectors.	28	Various
Uruguay			115	
Power Plants and Electrical Transmissions National Administration (UTE)	Punta del Tigre Thermal Plant	Provide the national electric system with stability, safety, and reliability, by decreasing the deficiencies in the energy supply.	28	8
National Development Corporation (CND)	Road Infrastructure Program-Phase III	Improve the quality of service of the national road infrastructure to contribute with social and economic development and the country's regional integration.	70	12
State's Sanitary Works Administration (OSE)	Potable Water System Project in Metropolitan Montevideo	Increase the capacity, stability, and reliability of the potable water supply system to improve the quality of life of the population in the western area of Montevideo.	17	9
Multinational			60	
Interamerican Corporation for Infrastructure Financing and Latin American Export Bank (Bladex)	Lines of credit	Finance foreign trade and working capital operations.	40	15
Local Currency and Darby Latin American Mezzanine Funds and special purpose vehicle of the Productive Chains Program	Equity shares and subordinated loans	Finance small and medium sized enterprise's operations.	20	Various
Operations with cooperation funds			8	
Several beneficiaries	Operations with cooperation funds	Various.	8	Various
Total			2,034	





CAF's Agenda for Comprehensive Development





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CAF's Agenda for Comprehensive Development and special programs in support of its mission

Infrastructure Agenda

- Initiative for the Integration of Regional Infrastructure in South America (IIRSA)
- Puebla–Panama Plan
- First–Class Ports Program
- Cross–Border Integration and Development Program

Social Development Agenda

- Potable water and sanitation
- Education
- Rural development
- Habitat
- Social responsibility
- Governance

Environmental Agenda

- Biodiversity Program (BioCAF)
- Latin American Carbon, Clean and Alternative Energies Program (PLAC⁺)
- Natural Disaster Risk Management Program
- Clean Industries Program
- Program for Sustainable Development in Financial Institutions

Competitiveness, International Insertion, and Public Policies Program

- Competitiveness Program (PAC)
- Access to Financing for Micro, Small, and Medium–Sized Enterprises (MSME)
- Corporate Governance Program
- Economic and Public Policy Research Program
- International Insertion Program

DURING 2007, 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 Corporación Andina de Fomento to enable other Latin American countries to become Series A shareholders.

The Agenda for Comprehensive Development proposed by CAF seeks high, sustained, sustainable, and quality growth: *high* to start correcting 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 decades, 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 capital, 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 equitable manner and reducing inequality and poverty in the region.

In order to achieve these objectives, growth should be based on the preservation of advances made in macroeconomic stability, the improvement of microeconomic efficiency, and a definite impulse to initiatives that promote social equity and inclusion, and the reduction of

poverty. These conditions are indispensable 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 Corporation and the dialogue with the public, private, and academic sectors of Latin America. These efforts have generated a set of activities 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; the environment; and competitiveness, international insertion, and public policies.



Infrastructure Agenda

The construction of infrastructure to interconnect territories, integrate populations, and increase economic productivity, requires a complex articulation of multi-sectoral and multi-disciplinary public policies that enable an adequate channeling of financial resources –public and private– and technical abilities toward the projects with the highest impact. CAF works simultaneously in the development and application of investment financing tools adapted to the demands of the region; and in the generation of knowledge and expertise for the analysis of the infrastructure sector, investment planning and preparation, and strengthening capacities of public institutions responsible for the management of infrastructure.

Over the last 15 years, CAF has established itself as the main multilateral institution to finance infrastructure projects in the region. This is a result of the Corporation's commitment to regional integration and the generation of conditions to increase and sustain economic growth in its shareholder countries to overcome poverty and improve the living conditions of their citizens.

CAF's actions in infrastructure have two main dimensions: i) financing investment projects, and ii) establishing a dialogue related to sectoral policies and technical assistance programs.

The financial support for investment projects starts from the first pre-investment studies, through technical assistance resources for the design and preparation of the projects, including advice to match the financing mechanisms with the characteristics of each project, with or without sovereign guarantee.

The dialogue on sectoral policies and technical assistance programs enable CAF's work with shareholder countries to continuously improve the capacities and conditions for the design and implementation of infrastructure projects with the highest positive impact on sustainable economic and social development.

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

During 2007, the South American countries have continued their joint effort for physical integration initiated in 2000 by the Presidents and Chiefs of State during the Brazilian Summit, which gave birth to the IIRSA Initiative. During the year an in-depth review of the project portfolio agreed by the twelve countries was conducted, organized in ten integration and development axes, and 47 groups of projects. During the review, the advances in the implementation of the projects were noted –more than 140 priority projects are being implemented– plan-



ning for the Paraguay–Parana Waterway Axis was started, and the project portfolio was updated to 507 projects.

In addition, the year was marked by the development of new tools to deepen the territorial analysis and planning of physical integration projects. Two innovative methodologies were developed by the Technical Coordination Committee (CCT): based on CAF's experience in projects such as the Southern Inter–Oceanic Peru–Brazil Road Corridor, a methodology was created to make a fast strategic environmental evaluation of groups of projects or extensive territorial spaces where two or more investment projects are being considered. The methodology provides timely information, at a reasonable cost, on the opportunities and threats that infrastructure projects may represent for the territory. On that basis, it identifies the complementary actions that should precede or accompany the investments. A second methodology enables the combination of the analysis of logistic systems of a territory, with the analysis of productive systems to establish a clear operational connection between infrastructure projects and regional economic development.

These methodologies will provide knowledge on the optimal investment sequence, and will help identify potential innovative financing mechanisms for infrastructure tied to the development of

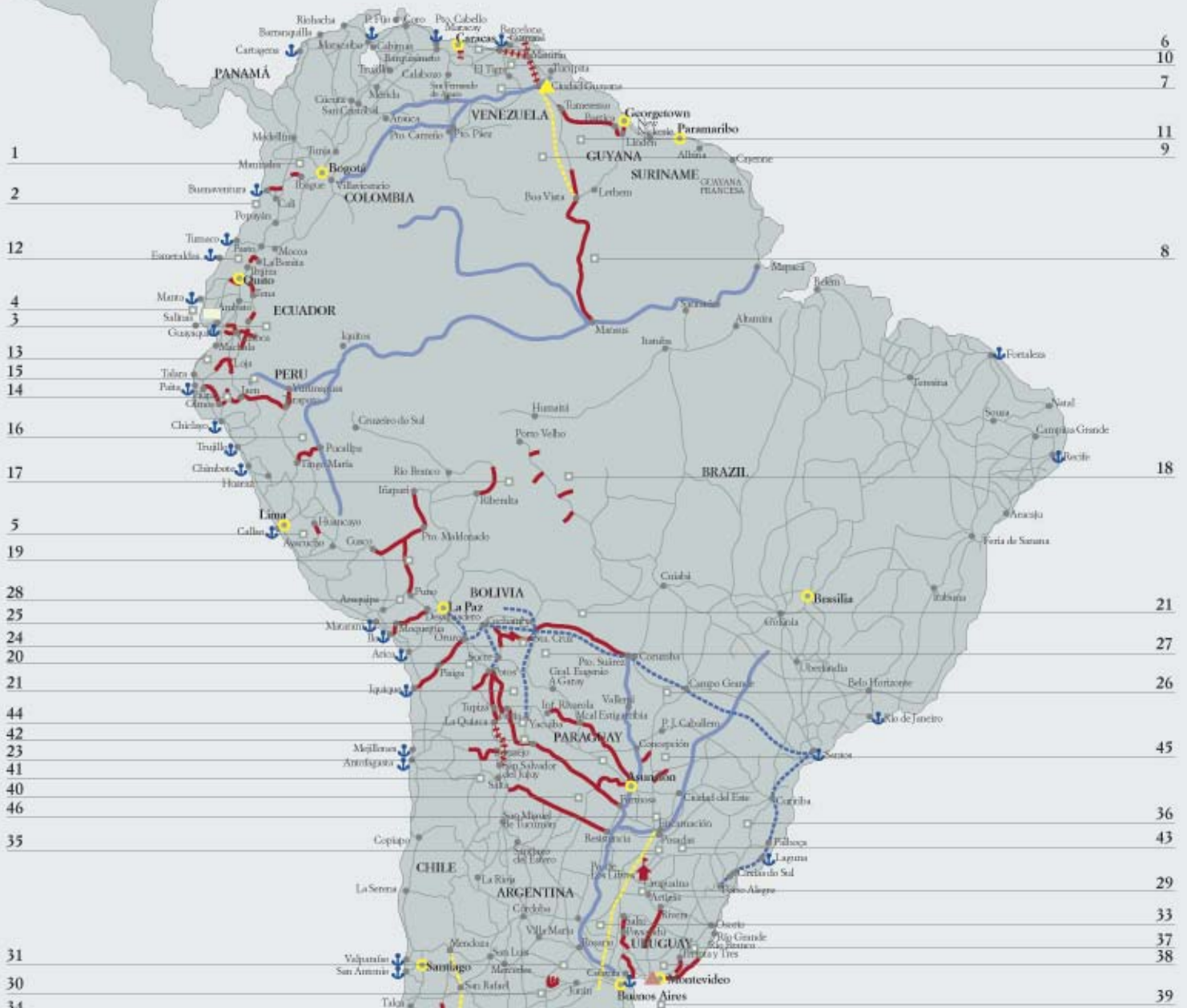
productive activities or logistic services that benefit from investments. Finally, responding to the territorial information needs –identified in the indicative planning studies of the IIRSA Initiative–, CAF is developing the GeoSUR Program, which seeks to establish a decentralized network of institutions that generate geo–referenced information in the region. The program is expected to facilitate access and use through an Internet portal that combines the information from different sources in various countries. This tool, which will be available to the public in 2008, will significantly contribute to raise the quality of public debates on development planning, and facilitate the decision–making processes, especially those that involve regional integration projects.

CAF's participation in the IIRSA Initiative has continued supporting the efforts to implement priority projects in the regional integration project portfolio. To this end, allocations from the Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra) have been especially important, supporting studies and pre–investment reports for over 30 projects, for a total amount of non–reimbursable contributions of almost USD 9 million. Likewise, there are already 46 IIRSA projects financed by CAF, with contributions of almost USD 4,500 million of a total investment of USD 12,975.5 million.

Physical integration projects financed by CAF (in USD million)

	CAF contribution	Total investment
Andean Axis		
1 Colombia: Buenaventura-Bogota Corridor (La Línea Tunnel)	32.0	278.6
2 Colombia: Buga-Buenaventura Highway (*)	145.0	468.0
3 Ecuador: Amazonic connection with Colombia and Peru (Troncal del Oriente Road)	93.8	152.7
4 Ecuador: Segmented Bridge Project over the Babahoyo River	123.0	133.9
5 Peru: Rehabilitation of the Huancayo-Huancavelica Railroad	14.9	18.8
6 Venezuela: Railroad connection between Caracas and the National Network	360.0	1,932.0
7 Venezuela: Support for commercial navigation in the Orinoco-Apure River Axis	10.0	14.3
Guyana Shield Axis		
8 Brazil: Venezuela-Brazil Road Interconnection	86.0	168.0
9 Brazil:Venezuela-Brazil Electric Interconnection	86.0	210.9
10 Venezuela: Railroad Studies Guayana City-Maturín- State of Sucre	2.6	2.6
11 Venezuela: Road Studies Guayana City (Venezuela)-Georgetown (Guyana)	0.8	0.8
Amazon Axis		
12 Ecuador: Central Trans-Andean Connection	33.7	54.5
13 Ecuador: South Trans-Andean Corridor	70.0	110.2
14 Peru: Northern Amazon Road Corridor	110.0	328.0
15 Peru: Regional frontier pre-investment with Ecuador	5.3	8.7
16 Peru: Central Amazon Corridor (Tingo María-Aguaytía-Pucallpa trench)	3.5	13.6
Peru-Brazil-Bolivia Axis		
17 Bolivia: Guayaramerín-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 trenches 2, 3, and 4) and guarantees for private structuring	504.5	1,073.5
Central Inter-Oceanic Axis		
20 Bolivia: Bolivia-Chile Road Integration Corridor	138.9	246.0
21 Bolivia: Santa Cruz-Puerto Suárez Road Integration Corridor (trenches 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: "Y" <i>de Integración</i> 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: Transredes Gas Pipeline	88.0	262.8
28 Peru: Bolivia-Peru Road Integration Corridor	48.9	176.6
Mercosur-Chile Axis		
29 Argentina-Brazil: Paso de los Libres-Uruguaiana Frontier Center	10.0	10.0
30 Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa Alternate Route)	10.0	10.0
31 Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa Alternate Railroad Route)	35.0	50.0
32 Argentina: Buenos Aires-Santiago Corridor (access to Paso Pehuenche, RN40 y RN 145)	106.7	188.1
33 Argentina: Rincón Santa María-Rodríguez Electrical Interconnection	300.0	623.0
34 Argentina: Comahue-Cuyo Electrical Interconnection	200.0	414.0
35 Argentina: Road Integration Program between Argentina y Paraguay	110.0	182.0
36 Brazil: Regional Integration Program-Phase I. State of Santa Catarina	32.6	65.5
37 Uruguay: Megalease of the Main Road Connections between Argentina and Brazil	25.0	136.5
38 Uruguay: Road Infrastructure Program Phase II	70.0	295.4
39 Uruguay: Punta del Tigre Thermal Plant Project	28.0	165.4
Capricorn Axis		
40 Argentina: RN81 Pavement	90.2	126.2
41 Argentina: Access to the Jama Pass (Argentina-Chile)	54.0	54.0
42 Argentina: Studies for the Jujuy-La Quiaca Railroad Rehabilitation	1.0	1.0
43 Argentina: Railroad Intergation Program between Argentina and Paraguay	100.0	160.0
44 Bolivia: Tarija-Bermejo Highway Program	74.8	200.0
45 Paraguay: Rehabilitation and pavement of the RN10 y RN11 Integration Corridors	19.5	41.9
Paraguay-Paraná Waterway Axis		
46 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
Others	210.0	812.0
Total	4,493.0	12,972.5

* Includes USD 25 million of a previous CAF loan already disbursed.



Legend

- Existing road system
- Roads, CAF projects
- - - Gas pipe, CAF project
- ++++ Railroads, CAF project
- Hydro-electrical inter-connection, CAF project
- ↑ Frontier passages, CAF project
- Bridge
- Waterways
- ▲ Hydroelectric plant
- ▲ Thermal Plant
- Nation's capital
- Other cities
- ⚓ Ports

This map has been elaborated by CAF with illustrative purposes only. Therefore, borders, colors, denominations or any other information shown, does not imply any judgement over the legal situation of any territory, or border recognition by the Corporation.

Influence Areas of the Puebla-Panama Plan



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Puebla–Panama Plan (PPP)

The Puebla–Panama Plan (PPP) is a *Mesoamerican* initiative to integrate and promote social and economic development in nine states of Southeastern Mexico, the Central American Isthmus, and Colombia—whose full incorporation became effective in 2006. Colombia's presence in the PPP contributes to the articulation of this regional proposal with the on going integration strategy in South America through the IIRSA Initiative. Four shareholder countries participate in this Plan: Colombia, Costa Rica, Mexico, and Panama.

Since the launching of the PPP in 2001, CAF has acted as a member of the Inter–Institutional Technical Group created by the *Mesoamer-*

ican presidents to support the plan within the framework of the two development axes that guide its action: the Human Development Axis, and the Productive Integration and Competitiveness Axis, each comprised of several initiatives.

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 the exporting sectors, the First–Class Ports Program is built on three basic pillars: i) previous CAF studies on logistics, competitiveness, and transportation; ii) the territorial planning

Establishment of the Latin American Port Quality Association. The photograph shows Pedro Coca, representative of *Fundación Valenciana de la Marca de Garantía*, Enrique García, CAF's executive president, and Rafael del Moral, president of the Valencia Port Foundation. Caracas, Venezuela. April 2nd.



studies carried under the IIRSA Initiative; and iii) the port management model of the *Marca de Garantía* successfully implemented in 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.

The ALCP offers specific guarantees of service quality to its clients in each certified port, creating incentives for the 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 the critical procedures in each port. In 2007, the ports of Cartagena and Guayaquil achieved their certification.

GeoSUR Program

Planning the integration and development of physical infrastructure in South America requires adequate access to integrated spatial, geo-referenced and standardized information. For over a

decade, CAF has been developing a geographic information system called CONDOR, launched in 2000, aimed at identifying and preventing the main environmental and social impacts associated with large infrastructure projects in the Andean region.

In 2007, a more ambitious stage was initiated with the launching of the GeoSUR Program, developed by CAF in the framework of the IIRSA Initiative, to establish a decentralized network of institutions responsible for generating and maintaining geographic information for decision making in each of the countries of the region. This network is comprised of national geographic institutes; infrastructure, planning, and environment ministries; universities; and regional research institutions, among others.

The program will sponsor the development of several mechanisms for accessing and consulting geospatial information, as well as generating new regional maps specifically aimed at territorial development planning and regional integration. GeoSUR supports the establishment of geo-servers which will offer a "digital door" to the wide world of geographic information generated in each country, including the initiation of a geo-server at CAF to manage all the information generated by the IIRSA Initiative processes. In addition, the program will have an Internet geo-portal that will provide access to the available information in the different network institutions, regardless of the platform, format, or projection of the source data.

During 2007, GeoSUR began the development of the tool in collaboration with the Pan-American Geography and History Institute, the Inter-American Biodiversity Information Network, the United States Geological Survey, and the geographical institutes of Colombia and Chile.

Cross-border Integration and Development Program



Cross-Border Integration and Development Program (PADIF)

From a renewed and global perspective of development in the region, CAF continued to promote a strategic vision of border integration among shareholder countries, strengthening the adequate planning and coordination of programs to take advantage of the shared potential and the opportunities for bi-national development.

During 2007, the Corporation sponsored more than 12 bilateral and multilateral initiatives through this program. It is worth noting: the Support for the Design and Implementation of the Border Integration and Bi-National Development Plan between Argentina and Bolivia, and between Colombia and Peru, along with the strengthening of physical integration and social development projects between Colombia and Venezuela, and in the border between Bolivia and Peru.

Likewise, the Corporation continued to promote efforts for the development of the border region between Ecuador and Peru.

In Colombia, CAF supported the Vice-Presidential program aimed at identifying and promoting the execution of important social infrastructure projects in the municipalities of the country's border areas.

Through PADIF, the Corporation also promoted cross-border sub-regional integration programs between the member countries of CAN, and in Mercosur it began work on the definition of the Bilingual Education in Border Zones Program, similar to the one currently under execution in the border between Brazil and Colombia.

All these border region projects have been aimed at supporting shareholder countries in their efforts to improve land management, coordinate planning, and jointly prioritize physical integration and productive projects that are socially and environmentally sustainable.



Social Development Agenda

CAF's social development agenda is sustained in the support to social investment shareholder countries through which the Corporation channels resources to strengthen the management capacities of public institutions, and develop activities of corporate responsibility from an innovative perspective. CAF's social action seeks a comprehensive human development and considers citizens as fundamental actors in their communities and territories.

Within the framework of its social strategy, the Corporation continued to advance initiatives aimed at promoting inclusion and social mobility, seeking to improve the quality of life of the most vulnerable population. During 2007, CAF approved investments for the social area mainly to finance programs addressing essential basic services in the educational, potable water and basic sanitation, health, and rural development sectors.

Potable water and sanitation

CAF shares the view point of countries in the region regarding water as a basic human need and a fundamental right. At the same time, it considers that, in addition to the challenges in the area of infrastructure and resource availability, the objective of ensuring universal, adequate, and efficient potable water and sanitation services fundamentally requires good management.

Based on these principles, CAF supported shareholder countries in structuring and financing programs and projects related to potable water and basic sanitation with a high social and environmental impact. Through different financial mechanisms, CAF seeks to increase the coverage and quality of services by facilitating access to the most vulnerable population. Likewise, it seeks to contribute to the develop-

ment of conditions that favor institutional modernization, improvement of managerial quality, and the creation and consolidation of autonomous and efficient operating entities.

During 2007, CAF supported programs both at the local and national levels. In Ecuador, it approved a loan to the National Government, to finance potable water and basic sanitation projects in municipalities with less than 100,000 inhabitants, and in rural areas. The initiative is expected to benefit close to two million people. At a municipal level, projects were sponsored in Guayaquil, Loja, Quito, and Riobamba.

From a regional perspective, loans were granted for the implementation of the Potable Water and Sewage Program in the department of Magdalena in Colombia, which is expected to benefit more than one million people in 25 municipalities. The initiative incorporates a regional long-term approach and the orderly and efficient use of the local royalties generated by the extraction of hydrocarbons. It is worth noting that this is the second loan approved by CAF to support regional programs in Colombia with high impact on the basic sanitation sector. In the future, the Corporation intends to replicate the scheme in other countries of the region.

Education

Education is one of the most effective tools to generate productive development and achieve social mobility. For this reason, CAF is committed to provide technical and financial support to educational policy and initiatives in its shareholder countries, with emphasis on proposals aimed at expanding quality coverage at an early age, upgrading technical and technological education, increasing efficiency, and achieving a more comprehensive institutional management.



The International Agricultural Development Fund (FIDA), CAF, and the German Technical Cooperation Agency (GTZ) organized the Regional Women Against Poverty Contest, to promote the experiences of women's organizations and entrepreneur groups in the rural areas of Bolivia, Colombia, Ecuador, Peru, and Venezuela.

During 2007, the Corporation contributed with specialized publications to the discussion of the main educational topics in the region. In particular, in Colombia it distributed a document with policy notes to enrich the discussions of the 2006–2015 Educational Plan. It also distributed a diagnostic and proposals document on preschool education in Colombia. At the same time, the Corporation continued to support the publication of materials for teacher training in language and mathematics, in collaboration with Unesco's International Institute for Higher Education in Latin America and the Caribbean (Unesco-Iesalc) and *Fe y Alegría*.

In addition, CAF manages specific education funds such as the Debt Exchange Program created by the governments of Ecuador and Spain, which has channeled USD 20 million for educational projects which otherwise would have been allocated to pay Ecuador's external debt. CAF also manages the Mercosur Educational Fund, to finance educational projects and programs in the Member States and Associated States of Mercosur.

Rural development

One fourth of the Latin American population lives in rural areas, where most of the extreme poverty of the region is located. CAF is committed to supporting a comprehensive development agenda, seeking to improve the human and social capital of rural areas. Thus, it promotes the implementation of projects and programs focused on productive chains and global and territorial development that favors small producers and the rural population to improve their living conditions.

During 2007, the Corporation in coordination with its strategic ally, the International Agricultural Development Fund (FIDA), continued supporting projects and programs in the rural areas of

countries in the region in several aspects related to agricultural development, and increased its geographical reach by incorporating several projects in Guatemala. In addition, it emphasized the promotion of innovative experiences of women's organizations and groups in the rural areas of Bolivia, Colombia, Ecuador, Peru, and Venezuela through local and international competitions. In Venezuela, it promoted the development of export-quality coffee (*Biscucuy*), and supported the implementation of the 2007 Agricultural Census, to gather information on the country's current agricultural status.

In the framework of improving its management in the area of rural development in the Andean region, and in alliance with FAO, CAF published four sectoral notes analyzing the agricultural situation and the rural environment in Colombia, Ecuador, Peru, and Venezuela.

Habitat

To support member countries in the improvement of living conditions for the excluded urban population, CAF initiated a new strategic area of activity –promotion of a sustainable habitat– aimed at reducing urban precariousness using an innovative and comprehensive approach.

During the year, the Corporation organized an event on urban poverty and informal human settlements, which led to the creation of an interdisciplinary group within CAF to address these types of operations –in collaboration with the Economic Commission for Latin American and the Caribbean (ECLAC) and the participation of the civic organization Friends of the Habitat. In the future, CAF will continue to assist this sector by supporting and disseminating successful experiences in the region.

From left to right:
 The Juventus Quartet from Venezuela, performed in the *Teatro Real* in Madrid during the inauguration of CAF's office in Spain.
 The *Pequeños Cantores de los Andes* Choir –chapter of CAF's Social Action for Music Program– participated in the 2007 Polyfolia festival, an event that joins the best choirs of the world to promote choral music at the international level. Normandie, France, July 5–14.



Social responsibility

During 2007, CAF strengthened its actions to improve capacities in low-income communities through programs and projects of social responsibility, focused 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.

The Corporation currently counts with some 260 partners in the different initiatives (11 belonging to the international public sector, 173 to the local public sector, 97 to the civil sector, and 70 to the private sector). The numbers average 5.3 partners per operation. In addition, CAF continued emphasizing the construction of alliances with strategic shareholders that can contribute to the sustainability of projects and to improve and increase comprehensive actions.

To this respect, it is worth noting the expansion of the agreements with the Spanish International Cooperation Agency (AECI), Repsol, *Fe y Alegría*, and the continued alliance with Fundación Codespa from Spain, the Ghella Entrepreneurial Group, and the Italian International Cooperation. At a national level, it is worth mentioning the active participation of the public sector in each country, particularly in regional and local settings, which have become key factors and elements of potential replication, and of the private sector, by facilitating and multiplying the corporate social responsibility of banks, entrepreneurs, and the Corporation.

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 seg-

ments –children, youth, and women– of the poorest population –farmers and indigenous population– and associated to socially solvent actors, partners, and operators who are able to multiply the impact and contribute to the sustainability of the initiatives, whose entrance vector –cultural, productive, or social– facilitates a process of building citizenship and the exercise of social, political, and economic rights.

On the other hand, CAF, along with the country offices and diplomatic missions of member countries in different places, adopted 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, the Corporation continued consolidating its musical training program. Recent advances were evidenced in five concerts in Cochabamba, Bogota, Guayaquil, Quito, and Lima. All these cities have new students, particularly children, with students from the *Fe y Alegría* schools who get voice training in the workshops of the *Voces Andinas a Coro* (VAC). CAF has strengthened the alliance with *Fe y Alegría* and is present in El Alto, Bogota, Quito, and Ciudad Bolívar.

In addition, from a perspective of training youth and children, the choral chapter of the musical program was extended to the favelas in Rio do Janeiro and São Paulo. The luthier itinerant workshop was consolidated in Medellín through the creation of a musical instruments cultural company whose first violins were declared a cultural heritage of the city. At year-end, the first Itinerant Andean Conservatory (CAI) was held with specialized teacher training in the infant category to create the Andean Infant Symphony.



CAF's Basic Skills and Heritage Rescue Program generates productive capacities that enable youth to join the labor market and preserve the historical and cultural heritage of the region.

Conceived as an instrument for human development, CAF's musical program undergoes permanent efforts to measure its social impact. As part of this process, more than 2,500 surveys have been administered with participating children and youth in the CAI and VAC workshops: 75 percent of those surveyed said they improved their school performance, 61 percent declared they felt more self confident, 41 percent believed they have increased their ability to concentrate, 36 percent said they relate better to other people, and 29 percent perceived that relations with their family have improved.

The program has continued strengthening its CAI component by deepening the training process in musical and instrumental techniques and orchestra direction for children and youth in the region. The initiative has expanded, new alliances have been established, and additional workshops have been held in Brazil, Colombia and Ecuador. Progress concerts have been held, serving as success indicators of the program in Cochabamba, Bogota, Guayaquil, Quito, and Lima.

At an international level, CAF participated in the Polyfolia Festival in France and the Juventus Quartet performed in Spain. Both groups originated in CAI actions.

Basic Skills and Heritage Rescue Program

Regarding basic skills training and heritage rescue, CAF consolidated the regional alliance with AECI to strengthen the Workshop-Schools of the Andean Region through training in basic skills and heritage rescue. Today, the Corporation supports 16 schools in the region. It also contributed to the work placement of youth with a delinquent record through the Popular Builder School in the municipality of Revenga, Venezuela, and to computer and technology training in the marginal neighborhoods of Caracas.

Along the same lines, CAF initiated skill's training for 600 low-income youth in Buenaventura, Colombia, with the purpose of placing them in the job market. In addition, the Superatec project operates in poor neighborhoods in Caracas and trains young people of both genders, promoting and monitoring their labor placement. In Bolivia, some 150 low-income youth benefited from the training activities in skills and traditional construction techniques. Thus, they can contribute to the conservation of the heritage in their regions and are able to find employment. The Corporation also promoted an initiative developed by graduates of the Workshop Schools in Sucre and Potosí, to save the rich musical traditions of the Chiquitano Baroque.

Finally, in Arequipa, Cusco, and Lima, CAF continued supporting the training of close to 200 low-income youth in skills and traditional construction techniques to rescue the architectural capital of those cities.

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. Thus, Bolivia advanced in the process of establishing local capacities in three departments through sports clinics conducted within the framework of the Social Action for Soccer Program. In Colombia, actions are taking place in Barbosa, Bogota, Buenaventura, Cali, Cartagena, Medellín, Puerto Tejada, and Sincelejo through alliances with executing agencies such as *Fundación Colombianitos* and *Cajas de Compensación Familiar*, and *Coldeportes*. In Peru, operations started in El Callao and Manchay to generate opportunities for children in these locations to participate in sports. Likewise, Arequipa witnessed the initiation of the Social and

Through the Social Action for Soccer Program, children and youth have access to sports training.



Family Inclusion Through Sports Project for the Population with Intellectual Handicaps.

Local Opportunities Program

Through this program, the Corporation continued projects with a multi-cultural approach to health, education, rural tourism, and savings and investments culture. Along these lines, it initiated the second stage of the Tending Bridges in Bolivia Program dealing with reproductive health in Aymara and Quechua women; it expanded the Randimpak Project in Ecuador, initiating a new phase with the incorporation of 15 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 Bolivia, CAF advanced in the activities toward the consolidation of the process to deepen achievements in reproductive and sexual health of Aymara and Quechua women, and completed the actions to improve the health and nutritional conditions of the population of El Alto through the incorporation of 100 schools to the gas network. In addition, it completed the Comprehensive Education Program in the municipality of Calamarca with a positive impact. The Corporation also supported the heritage rescue efforts in Tiwanaku to stimulate tourism based on the heritage values of the area.

In Peru, the Corporation supported activities to consolidate and expand the local cooperation networks in Huaura and supported 2,500 poor rural women in Puno, San Martín, and Ucayali so they could join the labor market.

It is worth mentioning the initiation of the Manchay project:

Abilities for a Better Future, a comprehensive initiative based on the education of children and youth, training of adults, and the generation of positive leadership in the community. Along the same line, the Corporation supported the launching of the Alternative Rural Schools project, and innovative and successful response to the challenge of secondary education in the rural environment. In Lambayeque, CAF began a project aimed at the consolidation and expansion of the Rural Entrepreneurship and Microfinance Development Program. The *Sembrando* Project came to an end, contributing to the improvement of the health and productive conditions of the farming population in Peru's Northern Sierra.

In Colombia, the Corporation supported the project that contributes to the training of children in the communities of Medellín, through the use of computers and technological tools. It also supported the training of 500 low-income families in Cali in labor and micro entrepreneurial skills; and the strengthening of management capacities and creation of family micro-enterprises in families that emigrated from the neighborhoods of Las Villas and Las Villas bis in Buenos Aires. On the other hand, the project with *Fundación Proyecto Paria* in Venezuela came to an end and the expanded objectives in production, marketing, health, and education were reached.

In summary, the portfolio of global social responsibility projects, financed through the Human Development Fund (Fondeshu), incorporated 19 new projects during 2007 while 20 others, initiated in 2004, 2005, and 2006, continue under execution. Thirty nine projects are being implemented and 15 have already concluded. 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.



Governance

Governance and Political Management Program

CAF started the Governance and Political Management Program in 2001 in alliance with the George Washington University and local universities in Bolivia, Colombia, Ecuador, Peru, and Venezuela.

In 2007, Mexico joined the program to offer 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. At year end, 5,121 participants had graduated from the program in these countries.

Focused on the needs of municipalities and provinces, this program is unique in Latin America. One of the characteristics is that it brings knowledge and experience to the leader's work place. With a duration of six months per module and classes which are not always in classrooms, it combines the theoretical–academic aspect with the practical reality of the municipalities. The inauguration and closing take place simultaneously in the five countries.

Leadership for Change Program

During 2007, 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 people toward sustained development.

Within the framework of governance, training natural leaders in the new visions of leadership goes from a general learning—that aims at strengthening democratic values—to competence in both the private and public environments, to mobilize resources to address the challenges of each situation in a consistent manner. In 2007, CAF consolidated this program in the five Series A shareholder countries. By the end of the year, 7,230 natural leaders had been trained.

The Leadership for Change Program is considered an example of social investment in the field of leadership with obvious impacts: 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 years through transparent, fair, and democratic processes.

Regional Updating and Improvement of Local Management Program (PRAMEG)

The program for the Regional Updating and Improvement of Local Management (PRAMEG) gives continuity to the Efficient and



Signature of the Governance and Political Management, and Leadership for Change programs. Caracas, Venezuela. April 12th.

Transparent Municipalities Program (MUNET) that concluded at the end of 2006. PRAMEG's objective is to continue the modernization process for land registries in ten municipalities of Andean countries with the aim of creating more efficient organizations, with the capacity to plan, manage, increase revenues, and coordinate their actions. The resources obtained are expected to ensure greater efficacy in the provision of services and in serving the needs of citizens.

The municipalities served through this program are: in Bolivia, the municipality of Tiquipaya in the department of Cochabamba, and the municipality of El Torno in the department of Santa Cruz. In Colombia, the municipalities of Fabio and Zipaquirá in the department of Cundinamarca. In Ecuador, the municipality of Durán in the department of Guayas, and Santa Rosa in the department of El Oro. In Peru, the municipality of Tacna in the department of Tacna, and the municipality of Jesús María in the department of Lima; and in Venezuela in the municipality of Girardot in the state of Aragua, and the municipality of El Hatillo in the state of Miranda.

At the close of 2007, 614 employees had been trained in electronic government and land registry through this program, while the coverage amounted to 22 municipalities in electronic government and 15 in land registry.

Tools for Governance and Consensus Building Program

During 2007, CAF initiated the Tools for Governance and Consensus Building Program in Colombia and Ecuador through the training courses of Cambridge International Consulting (CIC). Leaders from different public sector and civil society institutions participated in the program until the end of October.

The Corporation continued applying the successful model of previous years with representatives of Bolivia and Peru, where improved results have been observed in the development of strategic relationships through the application of the acquired knowledge.

The training project has focused on the strategy of working with multidisciplinary groups that personify key entities in each country and from which positive changes can be generated. Thus, the general outlines for the construction of committed relationships among the members of the community can be established.

The program is structured in four workshops: Negotiations, Strategic Communication, Leadership and Persuasion, and Management of Strategic Relations with the Public Sector. By the end of the year, 200 people had participated in the program.

CAF has made an important commitment to the environment within the framework of its institutional mission by generating specific strategies and implementing programs and initiatives that contribute to increase investment in the environment in the countries of the region.

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, the promotion and development of environmental goods and services markets, the strengthening of the quality levels of investment towards the sector as well as institutional strengthening, and the promotion of environmental responsibility.

During 2007, the Corporation published CAF's Environmental Strategy initiating an ample process of dissemination among the most important interest groups involved in environmental management in the region. It also initiated the design of the Institutional Environmental Management Plan (PIGA), which will promote corporate environmental responsibility actions in relation to CAF's management activities. In addition, it developed the Internal Operations Manual of Environmental and Social Evaluation and Monitoring which will facilitate even more the agile and decentralized environmental and social management of its operations.

During 2007, USD114 million were invested in financial operations addressing environmental issues, of which 36 percent were Corporation resources while the rest came from contributions from the operations.

Biodiversity Program (BioCAF)

Through the BioCAF program, the Corporation successfully concluded the formulation of the regional project "Financing Facilitation for Biodiverse Businesses and Support for the Development of Market Activities in the Andean Region". The project will be presented at the beginning of 2008 before the GEF to seek donations for USD6.3 million. It will have national, bilateral, and other counterparts until it reaches a total value of USD14.5 million. The objective of the

project is to support themes in bio-trade in Colombia, Ecuador, and Peru.

In addition, CAF supported the organization and celebration of the II Latin American Congress on National Parks and Other Protected Areas held in Bariloche, Argentina in October. Support was provided through Fundación SAVIA from Bolivia and IUCN Latinoamérica. The event produced a series of national reports as well as a regional report on the state of protected areas of the countries of the region.

Likewise, BioCAF directed its support to other initiatives. In Colombia, it supported a training course on best manufacturing practices for the *Aromática La Bella* Company which markets natural products. A study was also undertaken to establish the commercial potential of honey produced by Colombian bees in Bogota.

In Bolivia, CAF approved resources for the Friends of Nature Foundation to systematize and disseminate successful experiences about the sustainable use of biodiversity through the promotion of zoocrias under the bio-trade principles with two species (Alligator—*Yacare crocodile* and *Capivara Hydrochaeris hydrochaeris*). The project will enable the inhabitants of the area to increase their income and promote the human development of indigenous and farmer populations, as well as cattle ranchers of the municipalities of Villa Tunari and San Javier.

Within the context of the operation financed for repaving the Potosí-Uyuni section, CAF also allocated resources to continue the restoration of Andean wetlands that had been supported in 2006. These resources will be aimed at improving the quality of life of communities that live in the vicinity of the sector being paved, as well as at fighting the desertification of the wetlands and the management of solid waste, which is critical to improve the quality of the Salar de Uyuni.



In Peru, CAF approved resources to finance the Program for Sustainable and Competitive Development of Forests. The program will be coordinated by the Ministry of Economy and Finance and proposes a comprehensive approach to establish a national forestry policy, guarantee the conservation and sustainable management of forests in the country, and develop instruments to promote investment and competitiveness in the forestry sector.

In Venezuela, CAF approved a disbursement from cooperation funds to *Fundación Tierra Viva* to support the production of organic cacao by small producers located in areas adjacent to the Henri-Pittier National Park in the state of Aragua.

In Costa Rica, through the EcoEmpresas Fund—where CAF is a shareholder together with The Nature Conservancy and other shareholders—the Corporation approved financing for an ecotourism company in the Atlantic Coast, where there will be other resources generated by the company to support the work of the Costa Rican Biodiversity Institute (INBIO). In addition, in Ecuador, the EcoEmpresas Fund approved resources to a company that produces dehydrated organic fruits.

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

During 2007, CAF made significant contributions to the development of the Carbon market with the registry and issuance of certified reductions in the transportation sector. For the first time, it managed to sign an agreement with a forestry project, that will translate into social benefits for small producers in rural areas.

In addition, the Corporation signed eight new sale contracts for carbon emission reductions—seven tied to the CAF–Kingdom of the Netherlands Program and one to the Ibero–American Carbon Initia-

tive with Spain. The Corporation signed agreements to represent projects to sellers, thus initiating the open sales scheme with the participation of all types of buyers, private and public entities, and funds.

The portfolio included projects in different productive sectors such as energy generation with renewable sources (hydraulic, eolic, and geothermal), biofuels, transportation, gas, oil, and forestry.

Through PLAC⁺, CAF was intensively engaged in strengthening the carbon market in the different countries of the region by supporting two workshops, one conducted in Lima in August aimed at strengthening the market of the Clean Development Mechanism (MDL) in Latin America, and the other one aimed at supporting the negotiators of the Climate Change Convention and the Kyoto Protocol, held in the city of Santo Domingo, in November.

Natural Disaster Risk Management Program

Within the framework of this program, CAF edited the reports of the results obtained in the implementation of the Regional Andean Program for the Prevention and Mitigation of Natural Disaster Risks (Preandino), developed by the Corporation from 2001 through 2006.

In addition, CAF supported a training and technical assistant process to prevent risks and implemented the Early Warning System for the department of La Paz, Bolivia that will serve as a model for other departments. This cooperation also includes the modernization of the institutional framework for managing risks as well as the structuring of a risk prevention portfolio.

Finally, it should be mentioned that during and after the emergency produced by the earthquake in southern Peru in August, the Corporation initiated technical assistance actions in the process of organizing the entity in charge of the reconstruction of damages produced in the areas of Chinchá, Ica, and Pisco.



The Latin-American Carbon, Clean and Alternative Energies Program (PLAC⁺) has pioneered the development of projects based on bio-digestion technology, in which biogas with a high content of green house gases is generated and then mitigated using it to generate clean energy in industries. The mitigated gases are sold in the international carbon market generating new resources that promote incentives to install this technology in the industry.

Cleaner Industries Program

Through this program, CAF initiated a model agreement for cleaner production with two companies of the industrial sector in Peru, as well as a technical normative project for structuring and implementing agreements for Cleaner Production in that country.

In addition, it supported the Peruvian government by providing awards for the Cleanest and Most Eco-Efficient Production. This initiative was aimed at local governments and large companies. CAF also supported the National Environment Council (CONAM) in the process of evaluating and publishing the National Prize for Sustainable Management of Solid Wastes.

In Venezuela, it provided technical and financial support through the Industrial Reconversion Fund (Fondoin), to the first International Fair on Clean Technologies dedicated to promote best practices in industrial production and consumption.

Program for Sustainable Development in Financial Institutions

In a joint effort with the Latin-American Task Force of the United Nations Environment Program Finance Initiative (LATF-UNEP FI), International Capacity Building from Germany (InWENT), the Central American Business Administration Institute (Incae) and its Ecobanking project, in October, CAF conducted the first version of its e-learning program directed at banks, clients, and partners as well as other financial entities in the region. Participants in this activity in-

cluded various professionals, top executives, risk managers, and credit analysts, from financial institutions in Bolivia, Brazil, Colombia, Ecuador, Mexico, Peru, and Venezuela.

The objective of the activity was to motivate and train the participating financial institutions to improve their competitiveness and contribute to the sustainable development of the countries where they operate, through the inclusion of environmental and social guidelines in their operations, i.e., through the implementation of analysis and management tools for environmental and social risks that facilitate the identification, evaluation, and management of risks generated by their clients' operations.

In February, CAF conducted the workshop "Best Environmental Practices in Financial Management" in Colombia, targeting financial regulators –banking superintendencies or similar organizations– and banking associations. The objective of the event was to promote a reflection on the need to generate agreements and regulations related to social and environmental subjects, aimed at financial institutions in the region, as a tool to guarantee environmental sustainability and social responsibility of the projects and activities financed.

Participants in the workshop included the financial/banking superintendencies of Colombia, Ecuador and Peru; the Central Bank of Brazil, the Banco Cuzcatlán, and INCAE from Central America, and banking associations from Bolivia, Colombia, Ecuador, Peru, and Venezuela.

The development of clusters and commercial and productive capacities contributes to promote and strengthen the value added generated by participants in the productive conglomerates. These include businesses, universities, financial and non-financial supported organizations, science and technology centers, public entities, unions, and others.



Competitiveness, International Insertion and Public Policies Agenda

CAF develops activities to promote the development of productive and human capital, strengthen the competitiveness of nations, promotes the development of micro enterprises and other sectors that face restrictions to access capital, supports the strengthening of governmental institutions, contributes to the achievement of consensus regarding public policies, supports the economic integration and international economic insertion processes.

Competitiveness Program (PAC)

During 2007, the PAC, in line with its action areas, continued working on cluster development, the improvement of the business environment, and the strengthening of the entrepreneurial capacity, as well as the dissemination of its experiences and lessons.

Regarding cluster development, the PAC in Bolivia concentrated its efforts on the development of the Management System for the Improvement of Competitiveness (SGMC) of 30 tourism organizations in the cities of Sucre and Potosí. Likewise, three projects were approved in Ecuador: strengthening of the logistics cluster, with the aim to increase the competitiveness of exporters; promotion of a management model for competitiveness in the automotive sector that enables selected providers to become members of the world supplier's panel of the automotive sector; and an export strategy for gourmet products that seeks for SMEs to develop a basket to export products with high added value. Regarding the contributions of PAC in Peru, three initiatives are noteworthy: the promotion of competitiveness in the software industry, the productive development of the mango chain, and a strengthening program for competitiveness in the agricultural export sector, through the use of best labor practices and social responsibility.

In addition, PAC launched the Competitiveness Program in Panama. The program aims at strengthening productive and commercial capacities of export companies by supporting three strategic productive chains that count with the participation of at least 45 SMEs suppliers. In Argentina a project was approved to promote the entrepreneurial ties of 50 SMEs with five large enterprises.

Regarding the improvement of the business environment, PAC concentrated its efforts on carrying out studies to identify obstacles faced by businesses in the countries of the region. To this effect, Colombia promoted the implementation of two initiatives. The first one was related to the development of a diagnosis focused on improving the regulatory framework for the production and marketing of medical supplies and equipment. The second one consisted of a joint task with the Vice Presidency of Financial Institutions related to the development of capital markets in the horticultural and fruit sector through issuances in the public debt market. In addition, a one-stop service project was promoted in Peru to optimize the State's management of foreign trade services and processes.

In relation to the strengthening of the 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 distant and presential classrooms for entrepreneurs. In 2007, PAC actively contributed in Venezuela to the implementation of a program for educators of entrepreneurship, where international specialists shared their experiences, techniques and knowledge with more than 50 professors devoted to teaching entrepreneurship. The objective is to increase the number of people able to create successful and sustainable businesses in the long-term.



CAF services the financing needs of micro entrepreneurs in Latin America by supporting specialized institutions to obtain growth with equity that has a real effect on the least favored populations.

PAC hosted the CAF Networks for Competitiveness event in Lima in the month of May, as a part of its dissemination function, where spaces were generated to reflect and exchange experiences related to business development. In addition, the Clusters Series I was published, which is part of the PAC Collection, a publication that summarizes CAF's experience on this subject and draws policy lessons. Other events where PAC participated were the Productive Change Workshop (Bogota), the Seminar on Reflection on a New Cooperation Approach for SMEs (Madrid), the Regional Seminar on Knowledge Management, JCT and Innovation (Caracas), University-Industry Cooperation: How to Create Wealth in the Emerging Economies (Mexico); as well as several workshops such as Competitiveness in Small Enterprises: Clusters, Business Environment, Local Development, and Simplification of Procedures: Experiences from Latin America and the Caribbean-FOMIN and Onudi (Washington, D.C.).

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

As in most of the countries, the Micro, Small and Medium-sized Enterprises comprise the main productive framework of Latin America and the Caribbean. Their importance is reflected both in the generation of productive value and in the social benefits that arise from the entrepreneurial activity of this important productive nucleus.

In spite of its importance and potential to promote a harmonic and sustainable regional development, most of MSMEs confront restrictions that attempt against their natural entrepreneurial dynamics, while generating substantial opportunity costs for society. One of the most sensitive barriers are the scarce financing alternatives available to entrepreneurs. The scarce supply of financing in reasonable con-

ditions biases the capital structure of MSMEs toward a combination of traditional sources of finance which many times is not competitive, generating private and social efficiency losses.

During 2007, aligned with the Agenda for Comprehensive Development which has guided CAF's actions in recent years, and particularly conscious of the opportunities lost due to the obstacles faced by the MSMEs, the Corporation has redoubled its financial support to MSMEs in the region.

In 2007, in accordance with its commitment and regional leadership in the promotion of the micro-financing industry, CAF approved 57 operations with 38 entities that finance Micro-Financing Institutions (MFI) in 11 countries, for USD 112.5 million, while advanced actions to incorporate new clients to the existing portfolio. The projects include a number of financial mechanisms such as capital contributions in MFI, lines of credit, subordinated loans, and partial guarantees for bonds issued through capital markets.

In response to the demands of most of the actors involved in micro-enterprises in the region, in the last year, CAF consolidated efforts to provide financing in local currencies. Based on the Peruvian experience, a scheme was incorporated to facilitate this type of financing in Mexico, and it is expected that in the medium-term this new mechanism will be replicated in other countries of the region.

Aware of the needs that the expansion of the micro-financing industry creates in the region, in addition to providing financial support, CAF allocated significant resources to provide technical assistance to strengthen institutionally some MFI, promote the development of innovative products and services –as is the case of micro-insurance– and support initiatives that contribute to the creation of prudential regulatory frameworks in the region.

During the II Microfinance Forum, organized by CAF, the progress and challenges of the micro-financing sector in the region were discussed. Lima, Peru, March 1st and 2nd.



In this direction, during 2007, CAF continued efforts to disseminate best practices in the micro-financing industry, sponsoring and actively participating in diverse forums and workshops, and publishing the results of the Microscope study, which measures the business environment for the development of micro-financing in the region.

Regarding the initiatives focused on the promotion of mechanisms that facilitate access to financing for SMEs, during the year CAF approved nine innovative operations for USD 40 million, expanding its current portfolio to 26 clients in 12 countries. Through these initiatives, CAF consolidated its presence and leadership in the promotion of Credit Guarantee Systems for SMEs. In addition, it supported an initiative to establish a guarantee system in Ecuador and sponsored and actively participated in the XII Ibero-American Guarantee Forum held in Santiago, Chile. Moreover, the co-insurance program for SMEs loan portfolios, approved in 2006 with the National Guarantee Fund for USD 10 million, successfully came to an end in Colombia. CAF also approved a co-insurance scheme in Argentina, with the Guarantee Fund of the Province of Buenos Aires (Fogaba), for USD 1 million, while advancing in the design of similar operations in Argentina, Brazil, and Peru.

CAF also made progress in originating innovative shared risk schemes with financial institutions of various countries in the region, where it will partially guarantee loans granted to SME clients of different sectors, including SMEs that are part of important productive chains.

The Corporation continued supporting factoring initiatives. To the operation with Compass Fund in Peru, approved in 2006, it added Fortaleza SME Fund in Bolivia, and made progress in creating similar schemes for other countries. Through these means, CAF set forth

efficient mechanisms for discounting invoices and factoring services, providing dynamism and strengthening productive chains of different economic sectors.

Finally, it is important to mention that the Corporation's comprehensive vision is reflected in the support given to the development and consolidation of the venture capital industry in the region. In 2007, CAF approved participations in several venture capital funds, such as the Latin Idea Funds in Mexico, Caseif II in Central America, and seed capital funds in Bolivia and Uruguay. CAF has also actively participated in the promotion and establishment of a supra-national fund that will initiate operations in the near future.

With these initiatives, the Corporation not only supports capital contributions in venture capital funds operating in Argentina, Bolivia, Brazil, Central America, the Caribbean, Mexico, and Uruguay, but also shares its experiences and lessons learned with numerous actors involved in the initial development stages of this industry, that has an important potential. In this sense, the transfer of knowledge is a valuable asset for CAF, as demonstrated by the joint operation of early 2007 with the Latin American Venture Capital Association (LAVCA) and FOMIN for the promotion of the venture capital industry in the region.

Corporate Governance Program

During 2007, 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. Thus, CAF supported the Insurance Industry in Bolivia in writing a Corporate Governance Code for the insurance sector and its implementation in the companies that wish to adopt it.



The Corporate Governance Program seeks to contribute to a responsible competitiveness through the promotion of best practices, at the enterprise, sectoral and macroeconomic levels.

In addition, as part of its dissemination function, CAF organized the International Seminar on Good Corporate Governance in Practice in Quito, on March 29th. The main objective was to generate spaces to reflect and exchange ideas, as well as to disseminate the progress and lessons learned on this subject in the region.

CAF directly participated in the development of five regional workshops presenting the diagnoses of Corporate Governance Practices in the Andean Region. It also participated in discussions about actions to take in each country: Caracas (April 18), Quito (April 23), La Paz (April 27), Bogota (May 15), and Lima (May 17). On the other hand, the Outline of the Corporate Governance Andean Code (LCAGC) completed its implementation in ten public and private enterprises.

Other events where CAF participated were the Precapital Venture Forum (Lima, March 26 and 27); Family Enterprises Management, Application of Tools for Corporate Management, Venezuelan Executive's Association (AVE) (Puerto La Cruz, May 4); Working Group Meeting on Corporate Governance of Development Financial Institutions—FMO and IFC (Munich, May 28); Annual CEF International Seminar (Buenos Aires, May 28); Corporate Governance in Latin America Round Table / OCDE and IFC (Medellin, October 9-11); II AVE Corporate Governance International Seminar (Caracas, October 18); and the AVE Family Enterprises Seminar (Barquisimeto, November 14). It is important to highlight CAF's signature, together with 30 other financial entities, of an agreement whereby a commitment was made to adopt an agenda for good corporate governance, not only within the Corporation, but also to promote the implementation of those principles with their clients.

International Insertion Program

As part of its role of supporting shareholder countries in international processes, CAF has accompanied them in recent commercial negotiations. To this respect, the development of this program during 2007 enabled the financing of five research papers about trade agreements, specially on the likely impacts of the different negotiation scenarios of the Doha Development Round, as well as on the impacts of the agreements between Venezuela and the Mercosur, and the negotiations between the Andean Community (CAN) and the European Union (EU). These papers will serve as a base for the publication of a book on this subject in 2008.

In addition, it is important to mention CAF's participation in the discussions held in the World Trade Organization (WTO) on the Aid for Trade Initiative, where regional and multilateral level meetings were held, highlighting CAF's active role in achieving success for the initiative at the regional level. Jointly with the Economic Commission for Latin American and the Caribbean (ECLAC), a number of working groups were convened in Lima, where experts in six areas (trade facilitation, infrastructure, energy, innovation, information technology, and communications and social cohesion) developed specific proposals to promote cooperation mechanisms at a regional level. Through this program, CAF also participated in a series of forums on public policies related to trade, especially in the Regional Integration Network (RIN) associated to the Latin American Economists' Association (LACEA). Finally, the Corporation has begun to provide support in the negotiations of trade agreements between CAN countries and the EU.

Economic and Public Policy Research Program

Through the Economic and Public Policy Research Program, CAF helps researchers in the region in the implementation and dis-

During 2007, CAF presented its Economic and Development Report in the main cities of the region, a publication that presents research and proposals on the path that Latin America must follow to ensure growth and increase its welfare.



semination of their initiatives. CAF benefits from research on subjects of interest for its Agenda, and participates in the debate of issues that are relevant to the economic and social development of Latin America. The research documents are discussed in workshops organized throughout the year, and published in the technical journal “Perspectives”. During 2007, CAF also published “Macroeconomic and Financial Challenges in Latin America”.

It is worth noting the sixth call for the Economic and Public Policy Research Program, where four proposals related to infrastructure and development were selected. The papers examined the effects of infrastructure on production, consumption, private investment, foreign direct investment, and regional export performance, as well as the role of civil society participation in the provision of infrastructure. Two of the studies, two were presented in a session on infrastructure and economic development, organized by CAF in the XII LACEA Annual Meeting, were held in Bogota, in October of 2007.

With respect to CAF’s active participation in this forum that brings together the most important researchers of the region. The Corporation presented the 2007–2008 Economic and Development Report “Opportunities in Latin America: toward a better social policy”, as well as the 2006 Economic and Development Report “The Path to Productive Transformation of Latin America”, a book that

was also distributed in seminars held in Bogota, Buenos Aires, Caracas, La Paz, Lima, Madrid, Quito, and Washington, D.C.. In addition, CAF presented its findings in the various discussion sessions held during the Conference.

A publication was issued comparing the experiences in some countries in the region regarding the evolution of productivity which aims to explain the possible causes of productivity differentials with industrialized countries, emphasizing the design and implementation of public policies, to identify policies to reduce the productivity gap between the countries in the region and the developed countries, in particular with the United States.

In addition, the role of new export activities on productive development in countries of the Andean region was analyzed in a series of case studies.

Another important contribution of the program was the publication of a book on the challenges faced by increasing hemispheric energy integration, specially in countries of the Andean region. The publication includes an analysis of the necessary conditions to expand oil production to supply the rest of the region, and adding value through energy productive chains as part of a sustainable development strategy for the sector.









A RECENT TREND IN TODAY'S BUSINESS WORLD is the increasing pressure that enterprises and other public organizations face from civil society to increase their social and environmental activities. Although it is true that many enterprises have achieved great progress in this direction through responsible environmental practices and social programs to support their communities, it seems that most of these activities are not tied to their main lines of business and are not aligned with their strategic objectives.

In recent years, the term responsible competitiveness is referred to as a strategic way to add value to businesses through practices that transcend economic profitability. The subject of responsible competitiveness has become a priority in the public and private agendas worldwide. The concept, if well understood and implemented, can translate into significant benefits such as productivity and growth, while positively impact society. Ultimately it will translate into improvements of the population's welfare. Responsible competitiveness is one of CAF's underlying concepts, embedded into its operations and programs, particularly into the Competitiveness Program (PAC). The purpose of this special report is to define the concept and discuss the various measurements used around the world, briefly review the status of the issue in Latin America, outline CAF's initiatives in the area, and provide public policy recommendations.

Concepts and international initiatives

Responsible competitiveness can be defined as the capacity to generate value in a sustainable and transparent manner. Among other things, sustainability refers to considering environmental effects, and including societies in the benefits of economic activity. Transparency refers to accountability and determining who is re-

sponsible for the impacts of economic activity –specially if they are negative. Thus, regulatory agencies have developed incentives and sanctions to promote the positive effects of economic activity and mitigate and/or eliminate the negative ones.

The term competitiveness is commonly used at different levels of aggregation, to refer to the economies of countries or regions, and to enterprises. Occasionally, the term is associated to the ability to compete in national markets or confront international competition. Recently, the term has been associated to the ability to generate value or achieve high levels of productivity. It is also important to consider the environment where private activity develops, since it may facilitate or disrupt entrepreneurial actions and their competitiveness.

The pursuit of greater competitiveness is not an end in itself, neither for economic policy nor for strategies at the business level. The objective is to achieve and structure instruments to improve the microeconomic aspects of enterprises (productivity, absorption of technology, managerial improvements, other) that will translate into advantages over competitors and generate more output and growth that will ultimately result in improvements in the living conditions of the population at the regional or country level, or of the stakeholders at the enterprise level.

Today, societies are increasingly aware of the importance of considering both the positive and negative externalities of economic activity. This is reflected in greater consciousness and a stronger participation of public and private institutions regarding social and environmental issues. Institutions are becoming stronger, generating expectations and demands for greater accountability regarding the quality of management and the effects of productive activity.

The best known measurements of competitiveness at a country level include those reported by the World Economic Forum (WEF) and the International Institute for Management Development (IMD). Their indicators are based on “hard data” and surveys that measure a number of variables associated with the capacity of countries to generate value. Their conceptual frameworks and the variables included are adjusted and change over time. Thus, over the past three years, the WEF has been giving greater weight to dimensions previously classified as merely social, such as the level of development and coverage of educational and basic health systems.

According to these sources, the factors that determine competitiveness at an aggregate level depend on the specifics of a country, including the level of development. For example, the WEF report defines three levels within 12 groups of pillars. Each level gathers the key elements for the economies driven by the supply of

inputs, efficiency, and innovation. The IMD report combines results variables such as economic performance with approximations of the government’s and business’ sectors efficiency, relating the variables to the development of infrastructure. The competitiveness factors established in the WEF and the IMD are shown in Box N° 1.

A more recent initiative, aligned with a more comprehensive concept of competitiveness, has been promoted by Accountability, a non-governmental organization that has designed a “responsible competitiveness index”. The index uses 21 indicators from 13 independent sources of information to reflect the degree to which countries are building competitiveness strategies that consider social and environmental impacts. The indicators are organized into three sub-indices, each one comprised of seven indicators: i) commitment of the States (policy drivers) reflected in their international commitments and some of their policies, ii) business actions related to labor and environmental policies, and iii), complementary cul-

Box N° 1

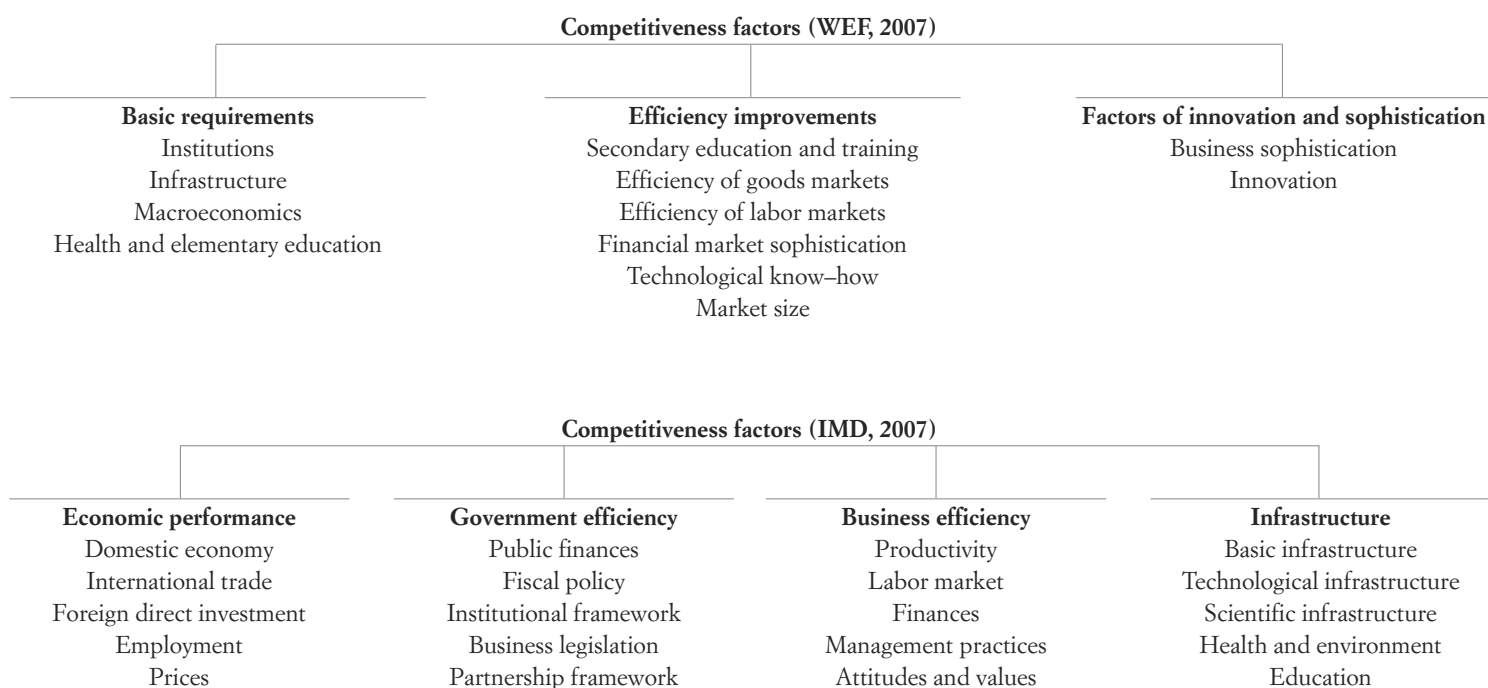
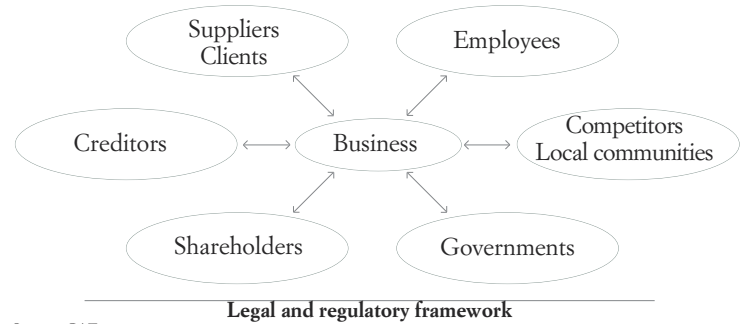
Competitiveness factors

Figure N° 1

Business with contractual framework



Source: CAF

Box N° 2

Responsible Competitiveness Index

Responsible Competitiveness Index (Accountability, 2007)

States' commitment	Business actions	Complementary cultural and institutional aspects
Signature and ratification of international treaties Ratification of labor rights Employment rigidity index Severity of labor regulations CO ₂ emissions per billion dollars of output Employment of women in the private sector Environmental responsibility tax	Effectiveness of the Executive Board Ethical behavior of companies Similar salaries for similar tasks Strength of audit and accounting systems Reach of personnel training Ratio of ISO certification Labor accidents	Perception of corruption index Consumer orientations Freedom of the press Transparency of transactions Membership to an NGO Civil liberties Impact of clean air and water on business operations

tural and institutional aspects (social enablers), such as, a culture of transparency, free press, intolerance to corruption, and a working network of non-governmental organizations. The factors that comprise the index are shown in Box N° 2.

The same concept of responsible competitiveness is applicable at the enterprise level. "Corporate social responsibility" is the expression currently used to address social and environmental dimensions in the strategy. It is worth noting that, in principle, this concept is not based on programs driven solely by altruism, but on the acknowledgement and proactive search to generate value for stakeholders. The sustainability of a business activity will be enhanced only if corporate social responsibility becomes a comprehensive portion of its long-term strategy. Figure N° 1, based on modern business theories, illustrates the enterprise as a contractual framework, reflecting its relationships with its main interest groups.

These relationships have a legal and regulatory framework that contains fundamental agreements on the relationship that can be expressed in terms of a contract. These frameworks are, for example, the business legislation related to stockholders, the labor legislation that regulates the relations with employees, and the trade legislation, regarding relations with suppliers, clients, and the financial system, among others. A socially responsible business will seek to generate value in each of these dimensions in a proactive manner, where the

interest groups participate in a transparent manner. Relations with the community and the environment involve compliance and innovation in social and environmental issues. Relations with shareholders are currently known as good corporate governance.

The relationship between business strategy and corporate social responsibility has been developed by several authors from the perspective of management theory. For many years, Michael Porter has been associated with the concepts of business and competitiveness strategy. A recent article by Porter and Kramer, (2006) develops a connection between corporate social responsibility and its main contributions to strategy theory. One of their key messages is that corporate social responsibility can be a strategic element for the company, not only contributing to social and environmental improvements but also translating into a competitive advantage. Nevertheless, few companies approach these activities from this point of view, missing an opportunity to generate value for their business.

In addition, various initiatives have attempted to measure different areas related to responsible business competitiveness. These include measurements and compliance with environmental standards such as the ISO140011, compliance with labor standards, such as the SA80002 (SAI), the ETI Base Code3, and comprehensive approaches to frameworks of corporate social responsibility such as the AA10004.

As initiatives that provide more information on the corporate responsibility dimension, it is increasingly frequent to find special sections in corporate annual reports devoted to the company's actions in social responsibility. At the company level, there are currently various "social performance" indices, such as the Dow Jones Sustainability Index and the FTSE4 Good Index. They differ in their structure and methodology, reflecting the current challenge of producing better quality reports, such as the Global Reporting Initiative methodology, and measurements considered useful to investors and other groups of interest.

The recognition of the 'responsible' dimension of competitiveness has not only resulted in concepts, ideas, and strategies, but also in initiatives worldwide such as the Environment Programme Finance Initiative, the Principles for Responsible Investment, the UN Global Compact, and the Guidelines for Multinational Enterprises from the Organization for Economic Cooperation and Development (OECD). All of them seek greater conscience, commitment, and specific actions by businesses.

Conditions in Latin America

Latin American countries, both in the competitive dimension and the approaches made on responsible competitiveness, show a significant gap with respect to OECD countries. Regarding responsible competitiveness, the index developed by Accountability reflects a similar situation for Latin American countries. Graph N° 1 shows the position of the region relative to OECD countries in terms of responsible competitiveness. As can be observed, the elements related to complementary cultural and institutional aspects show the largest gap with OCDE countries.

It is worth noting the great diversity of these indices, both at the aggregate level and among the factors that comprise the results

for Latin American and the Caribbean. Graph N° 2 shows the components of the Growth Competitiveness Index calculated by the WEF. When compared with OECD members, the countries of the region confront challenges in all the dimensions of competitiveness, where infrastructure, higher education and training, and technological training and innovation are critical.

In these four dimensions, on average, the countries of Latin America and the Caribbean were in the next to the last place only above the countries of Sub-Saharan Africa. Regarding the infrastructure pillar, this indicator measures the quality of infrastructure as an essential mechanism to improve competitiveness. The key factor of this component in the region is the quality of infrastructure. Regarding higher education and training, deficiencies can be observed in the quality of education in mathematics and science, and the limited access to Internet in schools.

Technological training measures the agility with which economies adopt existing technologies to improve productivity in their industries. In general, the region presents weaknesses in all the components, where the level of technological absorption by enterprises, which measures the ability of enterprises to absorb scientific advances— is the most critical. Innovation shows deficiencies in all its components, highlighting government purchases of high technology products based on price considerations rather than on technical performance and innovation. It is also worth noting the low quality of scientific and research institutions.

In summary, it may be concluded that the indicators commonly used to measure both competitiveness and responsible competitiveness show that the region faces important challenges to close the gap that separates it from OECD countries. This represents an important challenge for governments and multilateral financing institutions such as CAF.

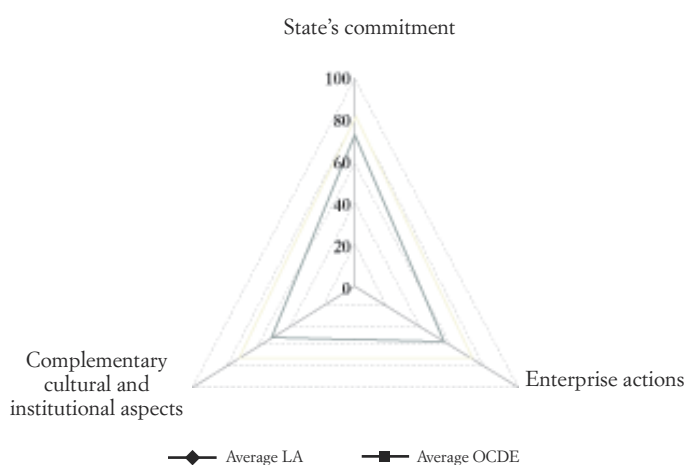
¹ From International Standardization Organization (ISO).

² From Social Accountability International (SAI).

³ From The Ethical Trading Initiative.

⁴ From Accountability.

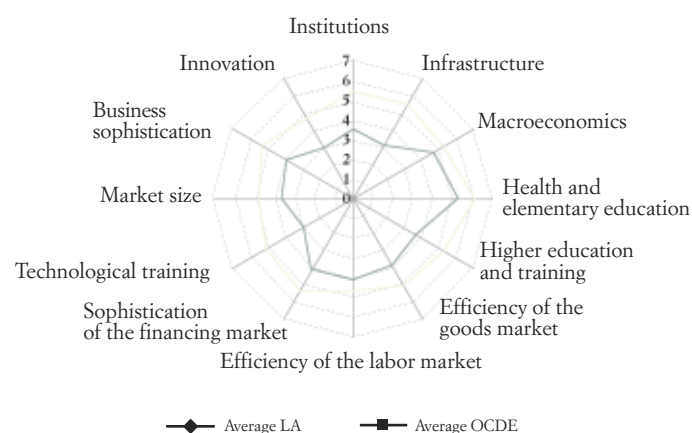
Graph N° 1

Responsible Competitiveness Index, 2007*

Source: Accountability, 2007.

* Indices are measured in units from 0 to 100, where higher values correspond to better indices.

Graph N° 2

Competitiveness for Growth Index*

Source: World Economic Forum (The Global Competitiveness Report 2007–2008.)

*Indices are measured in units from 0 to 7, where higher values correspond to better indices.

CAF and responsible competitiveness

Sustainable development and regional integration are CAF's main pillars. This is reflected both in its operations and in the development of strategic technical cooperation programs. The Agenda for Comprehensive Development promoted by CAF in the region seeks high, quality, and sustained economic growth, with the purpose of reducing the gap with industrialized countries, reduce external volatility, and contribute to the social welfare of Latin American.

It is worth mentioning that the following CAF's strategic objectives are aligned with the concept of responsible competitiveness:

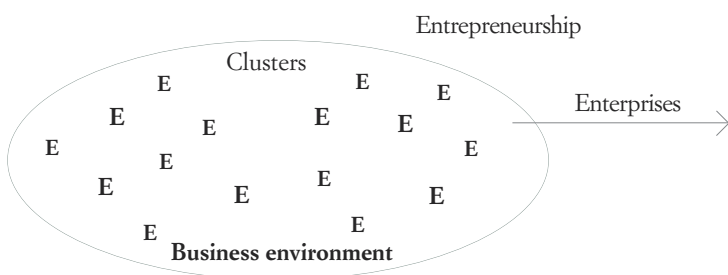
- Facilitate the productive transformation and diversification of the region.
- Promote an equitable and supportive human and social development.
- Promote the conservation and sustainable use of ecosystems and natural resources.

Clearly, through the supply of financing for different kinds of projects in the region, CAF seeks to improve the basic underlying conditions in the countries to generate value in a sustainable manner, thus contributing to the improvement of the population's welfare. In evaluating loan operations, the Corporation uses strict processes to review possible environmental impacts. Other considerations associ-

ated with the sustainability and transparency of the operations have been added, such as the joint evaluation of the social impact and the implementation of best practices in corporate governance with the counterparts.

One of the biggest limitations for competitiveness in Latin America is the infrastructure deficit, which creates difficulties for regional integration, productivity improvements, and development of new export markets. Therefore, CAF has concentrated its efforts and operations to reduce the deficit by financing key infrastructure projects in the areas of energy, transportation, water and sanitation, improving the productive potential in the region and contributing to an insertion of quality in international markets and a to greater regional integration. In addition, these projects have improved the quality of life of Latin Americans by increasing the coverage of basic public services.

In addition, the Corporation is currently developing several strategic programs that contribute directly and indirectly to responsible competitiveness in the region. These include programs aimed at areas that are critical for sustainable development, such as the environment, biodiversity, the use of clean and alternative energies, infrastructure, integration, public management, and research on development issues.

PAC Action Areas

Source: CAF.

Within the context of CAF's responsible competitiveness, it is worth mentioning its Social Responsibility Program, aimed at expanding opportunities and establishing productive capacities among low income populations through community organization, investment in human capital, and the citizenry (see Box N° 3). In

addition, a business management program is being implemented to promote best corporate governance practices (see Box N° 4). The Competitiveness Program (PAC) also emphasizes responsible competitiveness focused on the productive environment that generates value.

Competitiveness Program (PAC)

Created in 1999, the PAC was assigned to CAF's Office of Public Policies and Competitiveness to support a series of initiatives aimed at improving regional competitiveness. It is part of a coordinated effort by different areas of the Corporation to support the improvement of the competitive environment in Latin America. At first, the program's focus was on the research and debate related to competitiveness in the region, changing later to become action-oriented.

The general objectives of the program are to generate public or quasi-public goods, reduce transaction costs, and generate positive externalities related to the business environment. Thus, projects pursued by the program must seek to achieve specific results in their area of action, be sustainable, and generate positive externalities such as having demonstration effects.

Currently, there are three main areas of work:

1. Cluster Development: the objective is to increase and strengthen the value generated by the different actors of productive conglomerates or clusters. These include enterprises, universities, financial and non-financial organizations, science and technology centers, public entities, and associations.
2. Entrepreneurship promotion: seeks to improve the business environment enabling the surge of new business ideas and the consolidation of existing competitive enterprises in the region.
3. Business climate improvement: aims at reducing the main obstacles to business development in the region, such as administrative barriers associated with productive activities.

Figure N° 2 shows how work in these three areas can improve the business environment, promote associations within the private sector and with other relevant actors (public and academic), and promote the creation of new firms. This should lead to an improvement in productivity and competitiveness in individual enterprises and clusters.

The projects developed are based on demand and respond to the particular opportunities offered by CAF's member country counterparts. Their scope may go beyond one of the areas as, for example, the initiatives to improve the business environment or support entrepreneurship that are specific to a particular cluster or sector. In any case, the object of the intervention is to leverage opportunities and resolve bottlenecks looking for greater static and dynamic efficiency by promoting a greater productive transformation in countries of the region.

Since its beginning, the PAC has undertaken more than 70 projects, initially in Bolivia, Colombia, Ecuador, Peru, and Venezuela. It has expanded its coverage to projects in other member countries such as Argentina, Costa Rica, and Panama.

Most of the projects have been developed in the clusters area. The programs for the development of suppliers and distributors, quality certifications using international standards, development of export consortia, and logistics improvements are examples of PAC interventions in this area. Box N° 5 describes an initiative in Bolivia, a project to improve responsible competitiveness in a cluster. The initiative shows that enterprises, when seeking productivity improvements, can also generate positive externalities such as improvements in the quality of life of small producers.

Box N° 3

Social Responsibility Program

The Social Responsibility Program supports innovative projects that strengthen the capacities and talents of traditionally excluded sectors of society providing educational tools in the areas of music, sports, skills, and creating local opportunities to transform students into agents of their own development.

The program supports the following initiatives:

Musical training: Music is universally recognized as an ideal art for education due to its capacity to strengthen the intellectual, physical, emotional, spiritual, and expressive talents of individuals. With the Andean Musical Movement, aimed at rescuing socially vulnerable individuals and strengthening citizens' culture, CAF contributes to the comprehensive training of children and youth focusing on key human values and strengthening family and community ties, reestablishing the social mesh of a region characterized by fractures and inequity. The program focuses on the training of children, youth, and teachers in the orchestral, choral and luthier areas.

Sports training: Through projects designed for populations at risk, the program channels and develops the sports potential as a prevention and social rescue tool training children, youth, coaches, and local referees. Sports strengthen citizen culture and contribute to a comprehensive humanist education that fosters solidarity, discipline, responsibility, and respect, generating a sports ethic discernment that can be transferred to the social level.

Skills training and heritage recovery: Program created to support schools that offer practical training in masonry, plumbing, electricity, carpentry, stonework, gardening, blacksmithing, silversmi-

thing, computers, among others. The training creates abilities in productive skills that will enable young people to participate in the labor market and contribute to the preservation of their cultural and historic heritage. Schools also work on the human dimension, reinforcing self-esteem and leadership which, together with better employment prospects, are a powerful instrument for integrating youth into society.

Local opportunities: Through micro interventions at the local level, initiatives are sought to create abilities in excluded communities to increase their opportunities for progress. Organization, training, inter-cultural communications, and gender equity are the cross-section axes that bring together these projects, characterized by their small scale, the active community participation, and the accent on their potential for sustainability and replication. Projects address aspects such as strengthening and organizing the demands of basic goods and services (education and health), promoting a savings and investment culture, creating a local cooperation networks and/or improving the productive culture (in tourism, agriculture, and handcrafting, among others).

The projects may be financed if they: are related to areas of action, address the proposed objectives in a pertinent manner, are led by well-known organizations, and can contribute with financing from their own resources or from sources other than those provided by CAF. The projects are expected to be potentially replicable, scalable and sustainable. Therefore, the active participation of the community and other relevant local actors, including regional and local governments, is essential.





Box N° 4

Corporate Governance Program

The term Corporate Governance refers to the system used to manage and control an enterprise in the execution of its economic activities. It is focused on the responsibilities and rights of each member of the organization and the rules that must be followed during decision-making processes. In particular, Corporate Government refers to formal or informal practices that establish relationships between the Board of Directors, who define the enterprise's goals; Management, who administers and operates daily activities; and Shareholders, who invest in the company.

The guidelines to develop good Corporate Governance have been mainly designed for productive enterprises and organizations in general, but can also be applied to governments, regulatory agents, and capital markets and their operators.

In this context, and in line with its commitment to sustainable development and regional integration, CAF has been promoting the program Best practices of Corporate Governance at a regional level. The Program contributes to competitiveness through the promotion of best practices at the enterprise, sectoral, and macroeconomic levels.

At the enterprise level, implementing good Corporate Governance practices improves the availability and conditions for obtaining financial resources (it lowers monitoring costs and reduces the risks

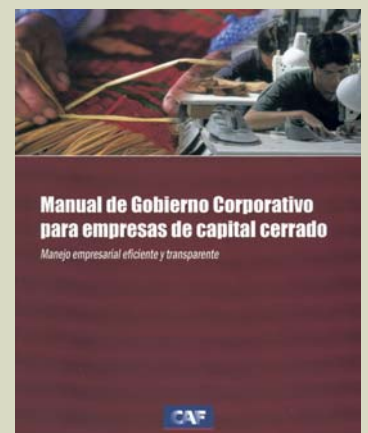
associated with the management), enabling agreements in better conditions and extended terms with other interest groups (suppliers, clients, or employees). This is possible since the counterpart offers greater transparency and concentration on the creation of value. At an aggregate level, the adoption of best Corporate Governance practices helps the institutional development of the financial system and the stock market.

Specifically, the lines of action are developed with local counterparts in the region, comprising:

- Conceptual contributions, such as drafts, as well as standards and guidelines published on the subject.
- Organization of forums and events, as well as design and publication of promotional materials.
- Implementation of effective pilot cases of best practices in different types of enterprises (public, closely held, family).
- Monitoring and measuring studies related to the adoption of best practices on Corporate Governance.

The Corporate Governance Program develops projects with governments, businessmen, and academics, assigning non-reimbursable technical and financial resources. Through the promotion of best practices, the program also contributes, to responsible competitiveness at the enterprise, sectoral, and macroeconomic levels.

For more information, see <http://gc.caf.com/main.asp>





Box N° 5

Promoting the milk cluster in Bolivia

The milk products cluster has a high development potential in the department of La Paz. This potential is measured by: i) the proven conditions and methodologies in the Highlands to substantially increase milk production; ii) the number of milk processing plants located in the department with idle capacity due to lack of raw material; iii) the level of consumption: the department consumes 30 percent of the total milk products produced at a national level, but produces only 17 percent of them.

To stimulate the cluster, CAF, through the PAC and the *Nuevo Norte* Fund supported a project to increase milk productivity through improvements in irrigation techniques, living conditions of the animals, and sanitation. Some of the results are presented below:

- Increased milk production: 2,300 families participated in competitions, demonstrations, and practices that increased milk production

by 40 percent due to improved feed (hay, forage, and watering), better quality and quantity of food, and reduced milking losses (stables and milking rooms).

- Initiated the consolidation process of cattle ranching activities: more than 500 families have changed their productive matrix from agriculture to cattle raising.

- Increased the purchasing power of participating families: the average income of the population is estimated to have increased by over 38 percent (average income is USD500 family/year).

In addition to improving productivity, the project had a positive impact on the welfare of families, not only contributing to higher incomes, but also increasing human capital through training. It has also contributed to reducing the volatility of family incomes enabling families to shift from high risk activities -such as agriculture- to milk production with a guarantee for sale in the market.

Other specific examples that illustrate the different types of interventions and the sectors on which the program has intervened, include: the creation of a competitive fund for innovative projects of Peruvian producers' associations, a program to develop auto parts suppliers in Colombia and Ecuador, the development of reengineering for the logistics of perishable exports in Colombia, the development of new products with value added in the fishing sector in Ecuador, the promotion of associations and joint improvements in the Ecuadorian tourism sector at a regional level, and a program for information technology

and communications exports in Venezuela. All these projects have at least two common factors that address improvements in responsible competitiveness: they promote associativity and the creation of social capital, and their main beneficiaries are the small and medium-sized enterprises, the main source of employment and welfare in the region.

Box N° 6 describes a project that supports the value chain in the tourism and crafts sectors in the Austro in Ecuador, and shows how both the enterprises' management and labor practices can improve through associations.

Box N° 6

Supporting tourism in Ecuador

Through the Ecuadorian Tourism Association of Chambers (Fenacaptur) and the support of the Undersecretary of SMS's at the Ministry of Industries and Competitiveness, the PAC is currently implementing a project to support the value chain in the tourism and crafts sector.

The project will conclude by mid 2008, and is comprised of two modules: the first one, training and consultancy to management levels, ended in December 2007. The second module, training and consultancy to middle and operative management levels that are in direct contact with the public, was initiated in January 2008. As part of the first module, training and technical assistance were provided in four components: Value Added Productivity Measurement (VAPM), Work Improvements in Small Enterprises (WISE), Administrative Management, and Commercial Management. Some of the findings include:

- Regarding the VAPM component, one the most significant achievements was that enterprises understood and assumed the methodology as an important management tool to improve the productivity indices in their organizations.

- Regarding the WISE component, trainers were taught to accompany the development of the WISE methodology, and 12 action plans were implemented to improve conditions in the work place.

- To strengthen Administrative Management, data collection schemes on products and critical services were conducted with all the enterprises enabling improvements based on facts and data.

- Regarding Commercial Management, marketing and sales management were strengthened in a group of participating enterprises, structuring and implementing marketing plans focused on the development of Non-Refusable Offers to increase sales, profitability, and competitiveness levels in the medium term.

This is an example of enterprise association in a service cluster. It illustrates that it is possible to implement practices to improve productivity at the enterprise level by optimizing management processes, while changes in labor conditions are implemented to improve the welfare of workers.

In the area of promoting entrepreneurship, the PAC has worked to strengthen incubators and pre-incubators in the region, create contests of entrepreneurial ideas and business plans, design on-line and face to face or entrepreneurial courses, and generate knowledge for academic use.

Specifically, support has been provided for the entrepreneurial system in Bolivia through university centers that provide assistance to entrepreneurs; in Ecuador, for the development of a university course, and the strengthening of incubators; in Colombia, for the develop-

ment of an e-learning course on innovation and creation of technology-based businesses; and in Venezuela, for the establishment of businesses. The last two cases are described in detail in Box N° 7. All these projects have had significant social impact since the creation of new businesses through entrepreneurship and incubation is an important mechanism to generate employment, due to the high rates of unemployment and informality in the region. In addition, the projects contribute to the development of university networks, and strengthen the ties between the private and academic sectors.

Box N° 7

The e-learning incubation course in Colombia and the system to support the establishment of new businesses in Venezuela

CAF and the Ministry of Trade, Industry, and Tourism of Colombia organized the e-learning project between November 2002 and 2004, based on the creation and implementation of a technological platform to support the entrepreneurial activities in the country. The project included the content, design, training, monitoring, and management of business plans with initiatives to create export businesses that incorporate new technologies.

The course was developed in two modules —training, and implementation of the business plan— and 80 higher education institutions participated from 23 cities in Colombia. In the training module, 8,473 participants registered, and 5,665 approved the module; 1,931 were trained in business fundamentals, 1,134 in the creation of business plans, and 572 in entrepreneurial management. The module on implementation of business plans approved 51 and 77 academic and entrepreneurial initiatives, respectively.

The implementation of the project encouraged many Colombian universities to include the “Entrepreneurial Course” in their curriculum, and the National Network of Business Incubators was consolidated as a regional node of the e-learning course.

The System to Support the Establishment of New Businesses in Venezuela (SACEV) was created to facilitate access of entrepreneurs

to training, advisory, incubation, and investment programs to support the creation of enterprises in Venezuela. Two components enabled its strengthening, the first one related to teaching, and the second one of a practical nature.

The project enabled the implementation of an academic course to identify business ideas in eight Venezuelan universities. A series of teaching tools were also developed to support entrepreneurial capacity training, including case studies and business videos based on local experiences. When this component concluded, an inter-university network was established, with teachers trained in the design and use of capacity building tools.

The implementation of the second component sought to develop a business incubation model based on international best practices adapted to conditions in Venezuela, and documented and validated by the incubation of seven new enterprises. In addition, a methodology was developed to evaluate the performance of business incubators with well defined management indicators.

These projects show that through the academic sector and the use of technology it is possible to contribute to the improvement of responsible competitiveness in a country, since the ultimate objective is the creation of enterprises that generate employment and create value. These initiatives have also improved the associativity levels between universities and strengthened ties between the private sector and the academia.

In the area of improving the business environment, the PAC has supported studies to identify barriers to the creation of businesses in the countries of the region, and has supported the development of projects to promote the simplification, electronic systematization, and cost reduction of administrative barriers.

Regarding diagnoses and the development of monitoring tools and improvements in the business environment at a national level, the projects ‘Costo Venezuela’ and ‘Costo Bolivia’ have been developed in these countries. At the administrative barriers level, other

projects have been launched, such as the optimization of state services and process management for foreign trade in Peru, and a feasibility analysis and design of the critical route for the implementation of the single business register in Bolivia.

Highlighting the responsibility and sustainability of the business sector, and in response to increasing demands worldwide, a program is being developed in Peru to strengthen the competitiveness of the agricultural export sector through best labor practices and social responsibility. This project is described in Box N° 8.

Box N° 8

Program to Strengthen the Competitiveness of the Agro-Export Sector in Peru

The Federation of Agro-Exporter Associations (AGAP) seeks to disseminate, train, and implement minimum good labor and social responsibility practice standards in the agro-export sector in Peru to ensure a fair and peaceful relationship with the workers that will promote improvements in the sector's overall productivity and competitiveness.

Agro-exporting is a relatively young business activity in the country (as well as its labor legislation), and in view of its high impact on rural employment, it is necessary to rapidly adjust it to the requirements of international markets, especially those of the United States and the European Union.

The program's activities include:

- Preparation of a diagnosis, sensitization, and implementation of good labor and social responsibility practices in 60 agricultural farms and packaging companies of seven valleys in the regions of Lima and Ica. The enterprises involved in the project generate employment for 28,000 workers and produce asparagus, citric fruits, onions, pecans, mangoes, eggs, fruits, avocados, and grapes.

- Publication and dissemination of the implementation process of good labor and social responsibility practices in the enterprises involved to make them known to the whole agro-export sector.

The pilot program seeks to work with 60 enterprises but the direct impact could reach the 300 that are part of AGAP and then the rest of the agro-export sector. The Ministry of Labor in Peru has shown great interest in this project because it could set the base for implementing a certification of best labor practices for the sector.



All the PAC projects are aimed at improving the population's welfare by promoting productive activities that create value. The responsibility element is especially considered when evaluating the project's externalities. Starting from the economic sustainability requirement, externalities include aspects such as inclusion of economic actors and demonstration effects that could benefit other sectors and/or communities in the region.

Since its inception, the program has sought to contribute and

promote learning in the region on subjects related to competitiveness. In addition to producing research and publications, the PAC has supported and directly organized forums related to these issues in Latin America. For more information on projects, research, publications, and dissemination events, a Web page and an electronic bulletin have been developed, available through <http://pac.caf.com>. Pages 122 and 123 show the various PAC projects in CAF's shareholder countries.

Final considerations

This special report has presented an approximation to the concept of responsible competitiveness, reviewing some of the related methodologies and initiatives and explaining some of the activities undertaken by CAF, especially through its PAC. Aware of the subject's importance for the region, a number of ideas and recommendations to advance in the field of responsible competitiveness in Latin America are presented below. They are intended to help policy makers, entrepreneurs, and civil society organizations.

First, it is important to recognize that responsible competitiveness is central to public policies as one of the pillars to increase the welfare of the population. In fact, the concept is multi-dimensional, and improving welfare requires a combination of actions that must be executed in a proactive, transparent, and inclusive manner. Moving toward a more transparent public management is a contribution to strengthening institutions and achieving greater generation of value and welfare for the population. Institutional strengthening (including its legislative and regulatory dimensions) in social issues (inclusion and creation of opportunities) is also a critical aspect to improve responsible competitiveness.

Second, from a business perspective, corporate social responsibility must be a part of the business strategy, not simply an altruistic dimension applied without discrimination, but a constant source of

opportunities to create value that benefits stakeholders. For this reason, benchmarking must be prioritized and included to fit the specific needs of the organization. In addition, it is important to remember that the markets (consumers, employees and other stakeholders) are increasingly conscious of these issues, valuing and rewarding socially responsible economic activities, and generating opportunities for entrepreneurs.

Regarding civil society, progress made to create awareness of responsible competitiveness generate pressures both at the public and private levels for advances that improve the levels of welfare. Social entrepreneurship initiatives complement the actions of the State and may result in innovations that can be adopted in public management. For this reason, the knowledge and adequate management of these concepts by society will demand greater awareness of the enterprises.

Finally, it is worth mentioning that the Corporation will continue working, through its financial activities and technical support to the public policies of its member countries, on the design and implementation of programs and responsible competitiveness practices, generating knowledge and disseminating the direct implementation of projects. The objective is to improve capacity of governments, enterprises and civil society to generate value in a sustainable manner, which will lead to the increased welfare of the population and the development of Latin American countries.

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United Nations: United Nations Environment Programme Finance Initiative (UNEP FI): www.unepfi.org

Projects implemented by PAC

Development of clusters and productive and commercial capacities

Project	Country	Date
Cluster promotion and development of 1) lumber and furniture and 2) leather and manufacturing	Bolivia	March 2002
Improvement of the logistic chain of the asparagus cluster	Peru	March 2002
Promotion and development of the grapes, wines, and singanis cluster	Bolivia	July 2002
Excellence in Software Engineering Center (Ceisoft), first stage	Venezuela	August 2002
Promotion of entrepreneurial SME networks	Peru	May 2003
Sub-contracting for export program: textile manufacturing sector	Peru	May 2003
Electrical and electronic industry products and services export program	Colombia	June 2003
Promotion of the Ecuadorian textile and manufacturing sectors in the United States after the Andean Trade Promotion and Drug Eradication Act (ATPDEA)	Ecuador	June 2003
Strengthening and development of the textile and clothing cluster	Bolivia	July 2003
Enterprise modernization of automotive land cargo transportation	Colombia	September 2003
Table grapes export cluster	Peru	October 2003
Excellence in Software Engineering Center (Ceisoft), second stage	Venezuela	November 2003
Venezuelan information technology and communications export program (Exportic)	Venezuela	June 2004
Entrepreneurial network of the lumber sector in Pichincha	Ecuador	June 2005
Productivity improvement, competitive benchmarking, and strengthening of associative schemes for the auto body and metal-mechanic sector in the province of Tungurahua	Ecuador	July 2005
Strengthen the access of Peruvian citric fruits to the United States	Peru	August 2005
Development of the shoe and leatherwork cluster in the province of Azuay	Ecuador	September 2005
Study on the improvement of the logistics chain of the palm oil and supplies cluster	Colombia	September 2005
Study on the logistic and information systems of the productive chains of petrochemicals, plastic, rubber, paints, ink, and synthetic fibers	Colombia	September 2005
Contestable funds for innovation projects in producer organizations	Peru	October 2005
The natural advantage in cosmetics and cleaning products	Colombia	April 2006
Strengthening of the paprika chain to consolidate its position in the international markets	Peru	June 2006
Strengthening of the associative scheme in the tourism industry in the Austro region (Azuay, Morona, Santiago, and Cañar provinces)	Ecuador	July 2006
Link Peru Hotels (HLP) Alliance of hotels committed to the quality and development of sustainable and responsible tourism	Peru	July 2006
Method to re-invent the logistic of your business (MERLIN)	Colombia	August 2006
Strengthening of the export supply of furniture and decorative objects elaborated with own materials using traditional arts and skills	Ecuador	September 2006
Venezuelan program to develop suppliers and distributors	Venezuela	December 2006
Promote tourism in Beni, Cochabamba, Oruro, Potosi, Santa Cruz, and Tarija	Bolivia	December 2006
Program to develop auto parts suppliers: management for competitiveness model	Colombia	December 2006
Development and improvement of export fishing products with value added	Ecuador	January 2007
Promote the software industry's competitiveness by decentralizing the culture of quality	Peru	May 2007
Productive development of the mango chain in the Lambayeque region	Peru	May 2007
Management system to improve competitiveness in 30 tourist enterprises in the cities of Potosi and Sucre	Bolivia	August 2007
Implementation of a management model for competitiveness in the automotive sector	Ecuador	November 2007
Strengthening of the SME for the development and export of a product basket with high value added value	Ecuador	n.a.

Promotion of entrepreneurship

Project	Country	Date
Sensitization for the creation of competitive enterprises	Ecuador	May 2002
First phase of the e-learning program in innovation and creation of technology-based enterprises	Colombia	October 2002
Implementation of the enterprise incubator of Pichincha	Ecuador	February 2003
Pilot enterprises incubator	Bolivia	February 2003
Pre-incubation projects in universities	Venezuela	April 2003
Ecuadorian system to support entrepreneurial training	Ecuador	May 2004

Strengthening the Incubator of innovation, competitiveness, and value enterprises in Guayaquil	Ecuador	May 2004
Strengthening of the “Believe to Create” young entrepreneurs program	Peru	June 2004
Ideas for Business national contest	Bolivia	August 2004
Enterprising ideas contest	Bolivia	July 2005
Support system for the creation of enterprises	Venezuela	August 2005
Sowing your enterprise: implementation of the La Paz enterprises incubator	Bolivia	September 2005
Support for entrepreneurship system: network of university centers to assist entrepreneurs	Bolivia	December 2006
Program to strengthen the competitiveness of the agro-export sector through good labor and social responsibility practices	Peru	October 2007
Promotion of business ties	Argentina	November 2007

Improvement of business environment

Project	Country	Date
Feasibility analysis and design of the critical route for the implementation of the Single Enterprise Registry (Reune)	Bolivia	August 2003
Costo	Bolivia	July 2005
Optimization of the State’s management of foreign trade services and processes (VUCE)	Peru	March 2007
Deepening of the capital market as a means for generating investment and financing for the horticulture and fruit sector	Colombia	June 2007
Improvement of the regulatory framework for the production and marketing of class I, II, and III medical articles and equipment	Colombia	August 2007
Competitiveness Program	Panama	August 2007
Support for the Commission on Administrative Efficiency and State Reform	Costa Rica	November 2007
Methodological guidelines for the simplification of municipal procedures	Bolivia	n.a.
Streamlining the export process project	Ecuador	n.a.
Study on the microeconomic barriers to entrepreneurial growth	Peru	n.a.
Electronic government: simplification and systematization of procedures for enterprises	Peru	n.a.

Other

Project	Country	Date
Electronic trade: Peruvian export supply portal project, first stage	Peru	June 2001
Venezuelan Network Sí compite	Venezuela	July 2002
Electronic trade: Peruvian export supply portal project, second stage	Peru	August 2002
Promote the National Technology Prospective Program	Colombia	August 2002
Promote the dialogue between universities that have careers related to the agricultural sector	Ecuador	August 2002
Productivity’s virtual space	Colombia	October 2002
International sub-contracting program and electronic trade	Bolivia	November 2002
Base document for competitiveness	Peru	November 2002
Institutional strengthening of the National Competitiveness Council	Peru	December 2002
Implementation of a pilot community mobile learning center for the provinces of Guayas and Bolivar	Ecuador	December 2002
Second phase of the Andean Regional Competitiveness Program		January 2003
Regional knowledge and social capital assets project		June 2003
Social entrepreneurship: a competitive advantage for enterprises	Venezuela	September 2003
Andean Technology and Technological Services Export Program	Colombia	October 2003
Promote the private sector’s commitment to the competitive agenda of the Peru-Business Council for International Negotiations	Peru	July 2004
Productivity improvements of the milk sector in the municipalities of Batalla and Pucarani in the department of La Paz	Bolivia	August 2007
Evaluation of the export competitiveness agreements	Colombia	n.a.
Andean inter-regional electronic trade	Regional	n.a.
Regional logistics and competitiveness	Regional	n.a.
Sectoral policies in the Andean region	Regional	n.a.
Project to improve the competitiveness of tourism in the Andean Region 2002–2004	Regional	n.a.
<i>Costo Venezuela</i>	Venezuela	n.a.

n.a.: not available



This page, from left to right:
XXXIV Summit of Mercosur Chiefs
of State. Rio de Janeiro, Brazil, January
18 and 19.

XXXIV Summit of Mercosur Presidents
and Associated States. Montevideo,
Uruguay, December 18.

Opposite page, from left to right:
XVII Ordinary Meeting of the Andean
Presidential Council. Tarija, Bolivia,
June 14.

XVII Ibero-American Summit.
Santiago, Chile, November 8-10.



CAF’s presence in the main regional meetings

During 2007, CAF reaffirmed its commitment to strengthen the ongoing regional integration processes and contributed to the consolidation of recent integration initiatives. Through the definition and implementation of working programs with various organizations and forums, the Corporation 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 Corporation’s active participation in the consolidation of priority projects in the agendas of its shareholder countries. During 2007, CAF promoted specific actions at the regional level, mainly in the areas of physical infrastructure integration and energy markets, financial integration and cooperation, productive diversification and integration, and strengthening of MSMEs, while supported regional projects to reduce asymmetries and promote social, educational, and cultural development. It is worth noting that CAF actively participated in numerous meetings including the Working Group for the Summits of the Americas within the

framework of the General Assembly of the Organization of American States in Panama; the working meetings and the Andean Community Presidential Summit (CAN) in Bolivia; the Mercosur Chiefs of State Summit in Asuncion, Paraguay and Montevideo, Uruguay; The Presidential Summit to strengthen the Puebla-Panama Plan in Campeche, Mexico; the Ibero-American summit in Santiago, Chile; the working groups and founding meetings of the Union of South American Nations (Unasur); and the tri-lateral meetings between the presidents of Bolivia, Brazil, and Chile in La Paz, Bolivia. From a multi-dimensional, comprehensive, and convergence perspective, CAF further developed the work programs and cooperation schemes agreed with regional integration organizations and secretariats, including 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 Pro-Tempore Secretariats of the Summit of the Americas, Mercosur, Unasur, Puebla-Panama Plan, the Latin American Integration Association (Aladi), the Amazon Cooperation Treaty, and the Association of Caribbean States.

Seminars and events



Italy

- On July 30th, a CAF delegation visited Rome and met the president of the Italian Council of Ministers, Romano Prodi; Chancellor Massimo D'Alema; the Minister of Economy and Finance, Tommaso Padoa-Schioppa, the Vice-Minister of Economy and Finance, Vincenzo Visco; and other well-known representatives from the business sector.
- On October 17th, within the framework of the III Italy-Latin America and the Caribbean National Conference, the Vice-President of the Council of Italy, the Minister of Foreign Affairs, Massimo D'Alema, and CAF's executive president, Enrique García signed a Letter of Intent in Rome agreeing to advance negotiations to achieve Italy's incorporation as a shareholder of the Corporation.

China

- On February 13th, the president of the China Development Bank (CDB), Chen Yuan, signed a cooperation agreement with CAF during the official visit of the Corporation to China. The agreement ratified the interest in establishing strategic alliances to strengthen Latin America's development and will enable CAF to play a catalytic role in the region mobilizing resources from Asia.
- On September 25th the vice-governor of the CDB, Liu Kegou, accompanied by an important delegation, visited CAF headquarters. The objective of the visit was to strengthen business ties between the two institutions.
- On November 20th, CAF signed a loan contract with the CDB for USD 150 million. Resources will finance infrastructure and social development projects in Latin America.

India

- From May 21–24, a CAF delegation visited India to strengthen ties between that country and Latin America.
- In Mumbai, CAF's executive president, Enrique García, and T.C. Venkat Subramanian, Chairman and Managing Director of the Export Import Bank of India, subscribed a cooperation agreement to promote investments from India in Latin America.
- In addition, in a meeting with Shyamala Gopinath, vice-governor of the Central Bank of India, CAF made a presentation of its activities and exchanged ideas on investment opportunities and trade between India and Latin America.

Guatemala

- On November 16th, the vice-president of Guatemala, Eduardo Stein, and CAF's executive president, Enrique García, signed an agreement to take the pertinent actions to achieve the incorporation of the Republic of Guatemala as a shareholder of the Corporation.

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. To this respect, the Corporation organized and participated in the following events:

- *Institute of the Americas: A Hemispheric Alliance*

Alliance aimed at strengthening CAF's presence in regional and global issues of interest through active participation in activities and events organized by the Institute. The activities have enabled the presence of the Corporation's speakers and panelists in events led by the Institute. In addition, they have enabled CAF's participation in the Managing Group of the Energy Sector and the sponsorship of employees in the workshops. The Corporation also participated, among others, in the Andean Energy Round Table and five workshops on Global Energy Policy, Immigration, Scientific Journalism, and Employment and Anti-Poverty Responses to Globalization. February 5–7.

- *Breakfast Conference: Political and Economic Challenges in the Region*

Within the framework of the annual meeting of IDB Governors, this breakfast conference has become the most important and prestigious parallel event with the participation of outstanding panelists and an audience of key international bankers and investors. Guatemala City, March 20.

- *37th Ordinary Meeting of the General Assembly of the Latin American Association of Financial Institutions for Development (ALIDE)*

CAF presented the financial plans and tools for sustainable development. Montevideo, Uruguay, May 24 and 25.

- *Ibero-American Business Forum: sharing successful experiences*

Seminar jointly organized with Foreign Policy Magazine, entrepreneurs, and private and public sector actors from Latin America, Spain, and the United States in an inter-active dialogue with high level panelists. Washington, D.C., United States, June 5 and 6.

- *Ibero-American Social Cohesion*

Meeting organized by the Economic Commission for Latin America and the Caribbean (ECLAC) and the Ibero-American General Secretariat (SEGIB) with the support of the Spanish Agency for International Cooperation (AECI) and the United Nations Development Program (UNDP). CAF participated in working tables on subjects that impact social cohesion in the region, such as protection and social

policies, employment, institutional strength and confidence, and fiscal framework. Madrid, Spain, June 18 and 19.

- *Andean Investment Forum*

CAF's first experience in this forum that counted with the presence of Colombia's president. The forum attracted both regional and international audiences, including regulatory agencies, institutional and private investors, and high level representatives of the corporate and financial sectors. Bogota, Colombia, July 10.

- *Educational Plan 2006–2015*

Organized by the Ministry of Education of Colombia, CAF provided financial support for the event, and contributed to the discussion of educational issues through the publication of Colombia, Educational Plan: policy notes. Bogota, Colombia, August 3–7.

- *Eleventh Annual Conference on Trade and Investment in the Americas*

Organized every year in a joint effort with the Inter-American Dialogue and the Organization of American States (OAS). Through the years it has become an important platform for discussion and analysis with political, academic, and civil actors regarding economic and trade relations, and current and future bilateral and multilateral policies between the United States and Latin America, with emphasis on the Andean countries. Washington, D.C., United States, September 6 and 7.

- *XII Annual Meeting of the Economic Association of Latin America and the Caribbean (LACEA) 2007*

CAF co-sponsored the 2007 edition of the LACEA annual conference. The event gathered more than 350 participants from around the world, including Nobel Prize winners, high-level public officers (such as presidents of central banks, ministers, and ambassadors), distinguished academicians, researchers, social studies students, and members of the business community. The meeting enabled the exchange of ideas and public policy proposals at a global level, and addressed Latin American social and economic issues. Bogota, Colombia, October 4–6.

- *Innovative approaches for development and agricultural and rural investment in Latin America and the Caribbean*

Organized by the Cooperative Program of the United Nations Food and Agricultural Organization (FAO) and the World Bank. Based on the 2006 World Development Report, the seminar addressed subjects



CAF's executive president, Enrique García, spoke about "Growth in Latin America: Perspectives for 2008" during the Asia-Latin America Business Forum. Singapore, October 1 and 2.



Opening of the XLI Annual Assembly of the Latin American Banking Federation. Miami, United States, November 4-6.





Within the framework of the XVII Ibero-American Summit, CAF participated in the III Ibero-American Business Meeting on Social Cohesion and Economic Growth. Santiago, Chile, November 8.



CAF participated in the 50th anniversary celebration of the Latin American Social Studies Faculty (FLACSO) in a special panel on Integration and Politics in Latin America and the Caribbean. Quito, Ecuador, October 30.

To the right:
II Forum on the Latin American Pacific Basin Initiative. Lima, Peru, August 20 and 21.

V CAF–New Ibero–American Journalism Foundation Seminar: Search for Journalistic Quality, Citizen Participation, and Contribution of the Communications Media to Development. Monterrey, Mexico, November 1 and 2.



such as the role of agriculture in economic development and the fight against poverty, the development of rural territories in investment projects conducted in Latin America and the Caribbean, and the lessons learned regarding the promotion of value chains, and access and security in land tenure. Rome, Italy, October 8 and 9.

• *Eighth Edition of the Biarritz Forum and its preparatory meeting–Fourth Meeting of the Biarritz Group Network*

The subject of Social Cohesion and Entrepreneurial Social Responsibility brought together representatives of the public sector, economic, academic, civil society, and media groups to debate and reflect on problems related to this issue that affect the relationships between Europe and America. Santiago, Chile, October 8 and 9.

• *Second Meeting of the Inter–American Social Development Commission (CIDES)*

The delegations of OAS's member states presented the actions being implemented to fight poverty and discrimination, and the progress made in preparing the First Meeting of Ministers and High Level Authorities in Social Development that will be held in Santiago, Chile, in May 2008. The main subject will be social inclusion and democratic governance in the Americas. Washington, D.C., October 23 and 24.

• *XVIII Latin American Congress on Entrepreneurial Spirit: Opportunities for the Majorities*

Organized by the University San Ignacio de Loyola, the meeting was an efficient tool for the creation of a Latin American entrepreneurial and academic community. It integrates the entrepreneurial spirit of the region in terms of social responsibility and the creation of a new entrepreneurial culture based on innovation and technology, specially in the small and medium-sized enterprises as pillars of sustainable development. Lima, Peru, November 6–8.

• *V Meeting of Ministers of Education*

Organized by the OAS, CAF participated in the working sessions to establish a hemispheric commitment to primary education. Cartagena de Indias, Colombia, November 14–16.

• *Canning House: Economic and Social Perspectives in Latin America and the Ibero–American Summit of Santiago*

Canning House, a prestigious institution from the United Kingdom, well known for its efforts to bring Latin America and Europe closer, organized a Conference with CAF's support. Enrique Iglesias, General Secretary of the Ibero–American General Secretariat (Madrid) and former president of the Inter–American Development Bank, spoke about the Santiago Summit to be held at the end of the month. Approximately 100 persons assisted, including British government officials, officials from the Ibero–American embassies, academics, and high level entrepreneurs. London, United Kingdom, November 19.

• *Emerging Economies Forum, Latin American Chapter*

Organized by the Emerging Markets Forum, CAF co-sponsored and was the intellectual leader of this meeting which brought together personalities from the economic, financial, and political sectors from various emerging economies. Montevideo, Uruguay, December 13–15.

• *Workshops The Path to Productive Changes in Latin America*

CAF presented the results of the third edition of the Economic and Development Report: The Path to Productive Changes in Latin America in Buenos Aires, La Paz, Bogota, Quito, Madrid, New York, Lima, and Caracas. Distinguished academics and representatives of the public and private sectors attended the forums.

• *Seminars for journalists, editors, and owners of communications media*

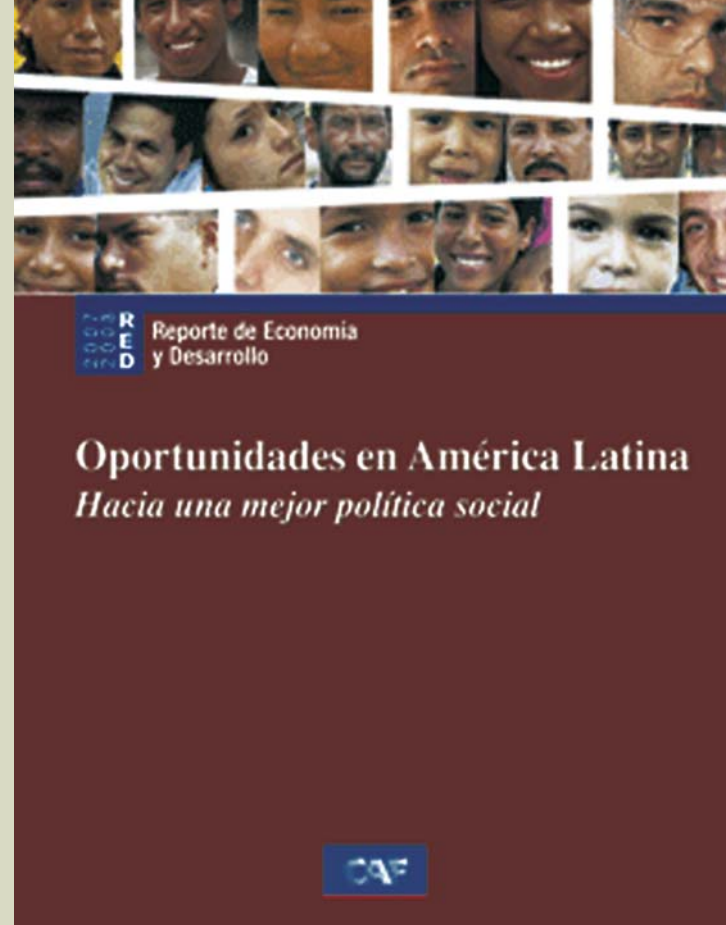
Eleven activities took place bringing together 385 professionals from the communications media of the region, the United States, and Europe. It is worth noting the Virtual Round Table that connected journalists from Bolivia, Colombia, Ecuador, Peru, and Venezuela to discuss the challenges faced by the written press. The activity was organized in a joint effort with IPYS Venezuela. In addition, CAF organized the V CAF–New Ibero–American Journalism Foundation Seminar in Monterrey, Mexico “Search for Journalistic Quality, Citizen Participation, and Contributions of the Communications Media to Development”; and the XI Euro–Latin American Forum on Communications: Causes and effects of inequity in Latin America. Santiago, Chile.

Dissemination of knowledge

2007–2008 Economic and Development Report: Opportunities in Latin America: toward a better social policy

The fourth edition of the Economic and Development Report (EDR) “Opportunities in Latin America: toward a better social policy” was published by CAF in 2007. The book, prepared by professionals of the Office of Public Policies and Competitiveness (OPPC) under the advice of distinguished scholars and personalities of the region, seeks to contribute to the debate on how to expand the opportunities for economic progress for the majority of the population. The limited opportunities for social mobility in Latin America are reflected in the insufficient progress shown by a set of social indicators. Although poverty has been reduced in almost all countries in the region, and access to basic services such as education and health has improved, Latin America has the worse income distribution in the world. Persistent unemployment and sub-employment rates and large informal sectors prevail in many countries, including those that have managed to sustain significant recoveries in their levels of economic activity. Likewise, real wages in the region are below the levels registered in past decades. Development inside the countries has not been harmonic and there is an increasing gap between urban and rural areas. This has generated a growing frustration for most Latin Americans due to the slow improvement in the quality of their lives and the perception that opportunities for social advancement are limited.

To improve the population’s opportunities for social mobility, the EDR addresses the need to increase the efficiency of social policies. Even though each country, due to its particular circumstances, may have different priorities regarding public interventions, the book states that in the achievement of greater social policy efficiency, there is ample space for improvement in all countries of the region. The EDR also states that it is imperative to achieve a global vision of social and economic policy, and within each social intervention. In fact, it argues that social policy should not be seen in isolation from other public policies, but as a central element con-



stantly inter-related to them. Likewise, social policies should be comprehensively approached. In so doing, the overlapping of programs, the implementation of low impact or erratic interventions, resource dispersal, and duplication of structures could be avoided. The global intervention of the State in society could become more efficient if there is greater coordination among its different elements. In addition, the report argues that social improvements should be permanent and sustained over time. For this to happen, the public policies that should be prioritized are those that increase human capital, thus breaking the cycle of the inter-generational reproduction of poverty, that generate quality employment, guarantee improved access to basic services, facilitate the accumulation of physical assets, and provide better coverage for old age pensions. In the report, specific issues are addressed for each one of these areas, giving special attention to management challenges and their relation with the other elements of the social policy.

The report also provides diagnoses and recommendations in light of recent evaluations on the successes and failures of public policies, and proposes guidelines to increase the efficiency of expenditures in each of the areas considered. These diagnoses and recommendations are completed in the different chapters with cross-section analyses on the institutional framework needed and the financing for social policy. Through this book, CAF seeks to contribute to the debate of the public policies needed so Latin Americans have real opportunities for sustained economic progress that could translate into greater levels of welfare.

CAF's publications support the implementation of the Agenda for Comprehensive Development that the Corporation advances in the region.



Financial and macro-economic challenges in Latin America

Four independent essays that emphasize the vulnerabilities that anchor the possibilities of growth and welfare of the region's economies. The objective is to promote reflection that leads to define a more stable and sustainable course for Latin American growth. ISBN: 980-6810-20-1 Published June 2007 N° of pages: 268



Series Clusters I

of the PAC Collection Experiences from CAF's Competitiveness Program in the promotion and development of clusters in countries of the region. Through these publications, CAF presents the work in these conglomerates and the lessons learned. Five titles: Building Competitive Advantages in Bolivia, The Strength of Walking Together, World Class Colombian Electronics, Venezuelan International Quality Software, and Knitting Export Capacities.

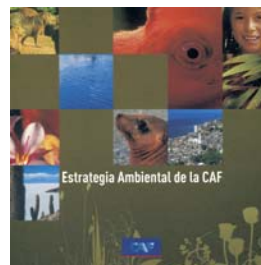
ISSN: 1856-772-X
Published June 2007
N° of pages: 244, 144, 52, 48, and 60.



Perspectives. Analysis of critical issues for sustainable development.

Vol. 5 N° 1
Evaluations of various social interventions focused on the research agenda of the 2007 Economic Report. The first study evaluates a micro-credit program that provides training for micro-entrepreneurs. The second study reviews eight experiences from various regions in Colombia to understand the incidence of different programs for the empowerment of their communities. A third study evaluates the experience of *Fe y Alegría* in Venezuela, as an example of public-private alliances for the execution of the social policy. A final study evaluates the impacts of the incorporation of Venezuela to the Mercosur.

ISSN: 1690-6268
Published June 2007
N° of pages: 128



CAF's Environmental Strategy

Describes the principles that guide the Corporation's environmental management and specifies the actions and strategic programs currently in use, as part of the permanent search for responsible institutional management and effective support to strengthen environmental policies of member countries.

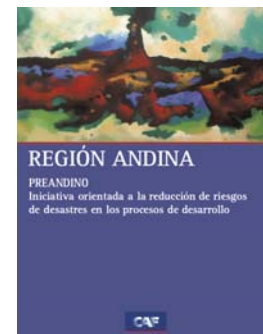
Published April 2007
N° of pages: 36



Proposal for a certification system for genetic resources

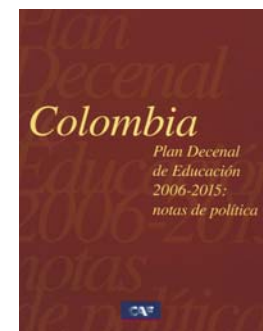
Presents the certificate of origin as a tool to generate a fair and equitable distribution of benefits from the use and sale of genetic resources. It also enables the protection of the legitimate rights of owners of genetic resources and the associated traditional knowledge. It is a useful tool for preventing illicit practices and facilitate trade under mutually

agreed terms and conditions. ISBN: 980-6810-21-X Published May 2007 N° of pages: 78



Andean region. Preandino. Initiative aimed at reducing the risk of disasters in development processes

Report on the actions taken under the framework of the Preandino Program created by CAF to support Bolivia, Colombia, Ecuador, Peru, and Venezuela in the design of national, sectoral, and territorial policies to prevent and mitigate risks. ISBN: 980-340-172-6 Published January 2007 N° of pages: 138



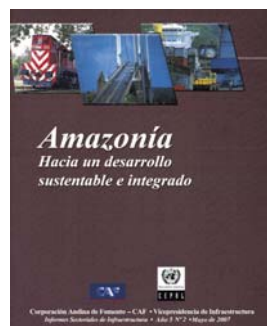
Colombia. Educational Plan 2006–2015: policy notes

Reflections on education as a societal asset and on the need to work to improve the quality of education and to promote the efficiency

of public expenditures before budgetary restrictions. It includes policy recommendations that contribute to improve the performance of the educational sector in its different levels and translate into a more equitable society.
ISBN: 978-980-6810-33-4
Published August 2007
N° of pages: 52

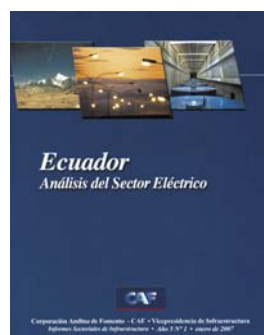


Restructuring and opportunities in the micro-financing industry
Compilation of the presentations and conclusions of CAF's II Micro-Financing Forum held in Lima, Peru. The meeting brought together participants and interested individuals from the sector to reflect and discuss on the progress and possible roads for further development of the micro-financing industry in the countries of the region.
ISBN: 978-980-6810-32-7
Published August 2007
N° of pages: 68



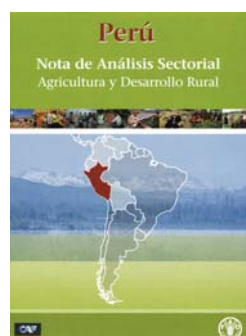
Amazonía: Toward an integrated sustainable development

Seeks to promote a technical dialogue with countries of the region regarding infrastructure at a sectoral level and disseminate best practices in areas that are important for investment and management. The report, prepared jointly with the ECLAC, contains an analysis of the transportation corridors in the central-western Amazon basin and its main affluents in Brazil, Colombia, Ecuador, and Peru.
Published May 2007
N° of pages: 72



Ecuador. Analysis of the electric sector
A comprehensive study that shows the causes and consequences of the country's current electric situation, as well as the key problems and advantages confronted by the sector. The report, prepared from

field information, brings together various actors to present an overall vision that contributes to the definition of public policies to promote the development of the electric sector.
Published January 2007
N° of pages: 68



Sector Analysis Note. Agriculture and Rural Development (Colombia, Ecuador, Peru, and Venezuela)
Brief characterization of the performance of the agricultural and rural sectors, including the institutional organization, policies, the main current investments with international financing, and the identification of some areas for intervention where obvious space exists for public and private investment. These analyses, prepared with the support from CAF and FAO, contribute to the debate of options for rural development in Andean countries, where 25 million people live in rural areas and depend mostly on the agricultural sector to sustain their families.
Published December 2006
N° of pages: 62, 60, 58, and 68.



The editor's role in the search for journalistic quality

Report on the fourth international seminar on journalistic quality organized by CAF and FNPI. The participants discussed the new role of editors and responded to questions such as the editor's role before the media, its journalists and readers.
ISBN: 980-12-0876-7
Published February 2007
N° of pages: 220



Sinergia
A vision of the activities developed by the Corporation in its shareholder countries. The publication opens a space for reflection and opinion to well known personalities of the Latin American region, who comment on topics of current international interest.
ISSN: 1317-6579
Published July and November 2007
N° of pages: 28



Corporacion Andina de Fomento

AV. BOLIVIA
LUGAR PAULIN GUARACHI
AV. BOLIVIA Y GALLARDO

CAF MAINTAINS A PERMANENT UPGRADE and institutional adaptation program to provide quality and timely attention to the requests of its shareholders and clients. To strengthen CAF's presence in its shareholder countries and achieve greater administrative efficiency, the following organizational adjustments were made during 2007: i) opening of the Spain office to strengthen the promotion of CAF and the region in the country and the rest of Europe; ii) establishment of the Operations and Technology Office; iii) strengthening the Financial Systems Vice-Presidency through the incorporation of the SME and Microfinance Division; and iv) strengthening the Public Policy and Competitiveness Office through the establishment of the Research and Competitiveness Programs Direction. Regarding human capital management, the Corporation completed a series of initiatives related to the implementation of a renewed vision aligned with the corporate strategy. Some of the activities included: i) redesign of sub-systems to recruit and select, hire and induct, and the development of initiatives aimed at attracting and retaining key talent; ii) application of the new performance management system; iii) updating and standardization of job descriptions; iv) launch of the CAF e-University (UVCAF), an innovative e-learning platform to manage the employee training program; v) definition of indicators and a Human Resources score card; vi) implementation of the *CAF Contigo* Program to strengthen employee integration and identification, where the most outstanding initiative was the establishment and implementation of a CAF Medical Service to attend medical ambulatory emergencies during working hours; vii) launch of the Youth in Development Program (PRODES), as a means of attracting and training a new generation of talented youth from Latin America graduated from the main international business schools; viii) design of ethical conduct guidelines; ix) design and implementation of a merit increase system; and x) acquisition and implementation of an integrated human capital management system.

Regarding information technology, CAF continued with the development of the Disaster Recovery Plan within the framework of

its Business Continuity Plan. In addition, the Corporation continued with the actions aimed at achieving greater integration and availability of services, and mechanisms to provide information and incorporate the subject of total quality using the COBIT alignment program.

The Corporation also strengthened its presence and image in the media and with its target groups. One of the most relevant initiatives in this area was the re-launching of the corporate Web page, with a more dynamic design and a more user friendly content. Regarding internal controls, CAF made important efforts in the development and improvement of procedures to achieve certification for the internal control evaluation through the COSO framework methodology. Regarding the management of regulations, the Corporation adapted and implemented corporate standards for internal regulations. During the year, it documented and published, among others, the following regulations: Manual of Activities, Processes and Corporate Macro-Processes, Loans Manual, human resources management procedures, CAF Cost Allocation Guidelines, Guidelines for Administrative Expenditures, Procedures for the Approval of Operations Financed with Cooperation Funds, Procedures for the Selection and Contracting of Consultancies and for the Secondment of Italian Experts Financed with Resources from the Italian Cooperation General Fund, Operating Manual for the DCO, Electronic Mail Guidelines; and Corporate Identity and Image Guidelines.

Regarding the renovation of physical facilities, the most relevant projects of the year were the construction of the new CAF office in Bolivia, the remodeling and outfitting of the Office in Spain, and the demolition of the building on the lot acquired for the construction of the new head office in Venezuela. The Corporation continued upgrading the current infrastructure in its head office, which included the construction of a new data center, remodeling of the employees' gym and the space allocated for the in-house medical services facility.



CAF

08 de Febrero de 2007

Bs. 107,500,000,000

CAF

Corporación Andina de Fomento
Obligaciones Quirografarias al Portador
Serie II de la Emisión 2006
Estructurador, Coordinador y Agente de Colocación
Citibank Mercado de Capitales C.A.

citi
Agente de Distribución
Merinvest Sociedad de Corretaje de Valores, C.A.

MERINVEST

CAF

Corporación Andina de Fomento
US\$ 72,000,000 FRN
Inaugural C

\$350,000,000

CAF

Corporación Andina de Fomento
6% Notes Due 2012
Price: 98.896%

Credit Suisse First Boston
Goldman, Sachs & Co.
Lehman Brothers
Merrill Lynch & Co.

March 18, 2002



\$250,000,000



Corporación Andina de Fomento
(multinational corporation established under international law)

July 21, 2000




Merrill Lynch & Co.



CAF
Corporación Andina de Fomento

Bs. 215.000.000.000
Obligaciones Quilografarias
al Portador
Vencimiento 9 de Junio de 2011
+ 0,10%

Currency Swap



Samurai Bond Offering

Series #7 ¥20,000,000,000 1.67% Notes due June 2010	Series #8 ¥10,000,000,000 2.32% Notes due June 2014
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Joint Bookrunners

**Daiwa Securities
SMBC**

NOMURA

June 2007



Corporación Andina de Fomento
Due March 2006
London B...



ANIVERSARIO

US \$ 325.000.000
Commercial Paper
Agosto 1998

US \$ 40.000.000
bilateral - 2002
Julio 1999

CAJA MADR

Table N° 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

DURING 2007, rating agencies recognized once again CAF's superb credit quality and franchise value in the region. Standard & Poor's upgraded CAF's credit rating to "A+". In addition, Japan Credit Rating Agency revised its outlook on CAF's long-term issuer credit rating to 'positive' from 'stable', which would imply a possible upgrade in its credit rating in the medium term. Meanwhile, both Moody's Investors Service and Fitch Ratings ratified CAF's credit ratings. (Table N°1)

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 continuing support of its shareholder countries.

Moreover, in 2007, CAF was reaffirmed as the most important source of multilateral financing for its member countries as shown by record levels of approvals (USD 6.6 billion) and disbursements (USD 5.8 billion) achieved in that year, mainly aimed toward medium and long-term project financing.

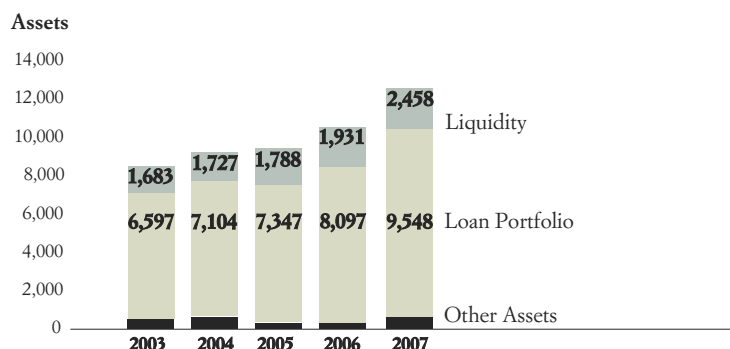
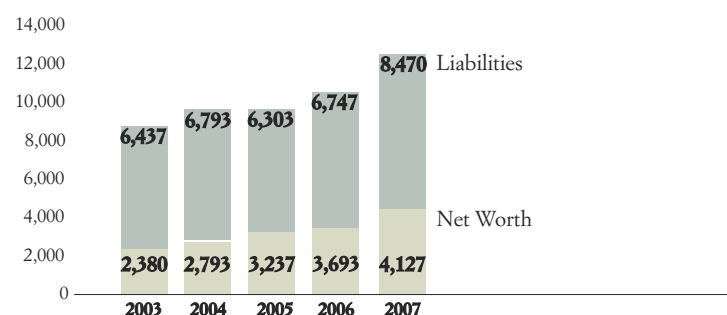
CAF received USD 122 million in new capital contributions from its shareholders in 2007. From this total, USD 97 million were contributions received from Serie C shareholder countries, which underscores the growing importance of these shareholders in CAF's capital

structure as well as their unquestionable role in the transition from a mainly sub-regional focused lending institution to a multilateral bank with a scope covering most of Latin America and the Caribbean.

Net profits reached USD 401 million in 2007, mainly due to an increase in the lending portfolio during that year. However, it is important to mention that this outcome included USD 75 million in extraordinary income that comprised a credit to loan loss provisions due to an improvement in the credit rating of one of CAF's main shareholders, as well as capital gains deriving from the sale of investments in funds. As a result, total net profits before extraordinary income amounted to USD 325 millions, a level close to that reached in 2006.

Bond issues in the international markets reached USD 718 million in 2007. Local capital markets activity during that year included two local-currency issues in the Venezuelan market for USD 109 million, as well as CAF's first placement in Mexican Pesos with an issue for USD 69 million. Within its funding strategy, CAF also tapped more traditional markets that year, issuing USD 250 million in Yankee bonds and the equivalent of USD 290 million in the Samurai market. The Corporation also 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.

Graph N° 1

Balance Sheet. As of december 31 (in USD million)**Liabilities & Net Worth****Summary of Financial Statements**

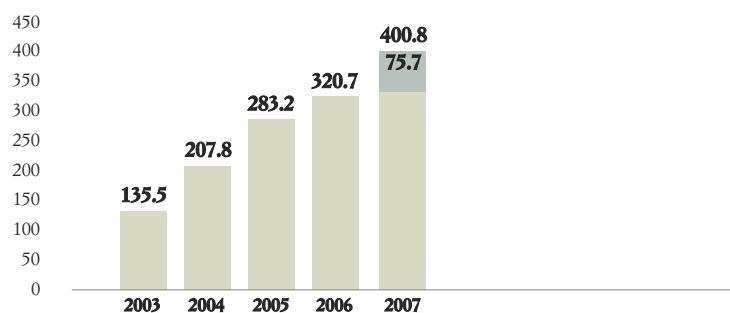
During 2007, earning assets –liquidity and loan portfolio –grew at a rate slightly over 19%. At December 31 2007, total assets were USD 12.6 billion, 20% higher than at the end of 2006 (Graph N°1). This was mostly due to an increase in the loan portfolio, which reached USD 9.5 billion or 18% over the amount at the end of 2006. The other major component of assets, liquidity, totaled USD 2.5 billion, the equivalent of 20% of total assets and 30% of total borrowings.

Shareholders' equity was USD 4.1 billion at the end of 2007 and retained earnings reached USD 401 million. Shareholders' equity represented 33% of total assets and 36% of risk-weighted assets, according to Basel II Accord standards, as of 31 December 2007.

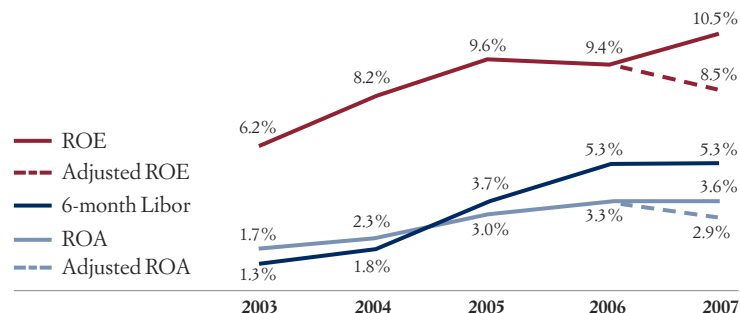
Net income for 2007 reached USD 401 million and was primarily a result of the increase in the lending portfolio. Nonetheless, this outcome included extraordinary income of USD 75.7 million resulting from a credit to loan-loss provisions due to an improvement in the credit rating of one of CAF's main shareholders, in addition to capital gains arising from the sale of investments in funds. As a consequence, total net profits before extraordinary income was USD 325 million, a level similar to that observed in 2006.

Return on Equity (ROE) for the year was 10.5%, which compares very favourably with the established benchmark of six-month Libor (Graph N°2), while the Return on Assets (ROA) for this period was 3.6%.

Graph N° 2

Net Income and Profitability. For the year ended December 31 (in USD million)**Net Income**

Note: 2007 includes USD 75.7 million of extraordinary income.

Profitability Ratio

Note: Adjusted ROE and ROA exclude USD 75.7 million of extraordinary income.

Loan Portfolio

The loan portfolio was USD 9.5 billion at the end of 2007, 18% higher than the level reached in 2006 (USD 8.1 billion).

The distribution of the loan portfolio continued to be skewed toward the financing of public sector projects, which represented 77.7% of the total at the end of the year. From the perspective of portfolio distribution by country, the largest exposure was Ecuador with 22.5% of the total loan portfolio, followed by Peru with 18.9%, Colombia with 17.1%, Venezuela with 15.4%, and Bolivia with 10.9%. Other countries shared 15.9% of the total loan portfolio. CAF's poli-

cies 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 represented 39% and 25%, respectively, of the loan portfolio at the end of 2007.

From the point of view of asset quality, the loan portfolio maintained its excellent credit quality (Table N°2): there were no non-performing loans and loan-loss provisions totaled USD 168 million or 1.8% of the loan portfolio. Also, loan write-offs were less than USD 200 thousand for the year.

Table N° 2

Asset Quality (in USD million)

	2003	2004	2005	2006	2007
Overdues	0.0	0.0	0.0	0.0	0.0
Loans in non-accrual status	10.9	20.0	1.3	0.0	0.0
Allowances for loan losses	209.8	181.8	161.6	188.6	168.3
Overdue as a percentage of loan portfolio	0.0%	0.0%	0.0%	0.0%	0.0%
Non-accrual loans as percentage of loan portfolio	0.17%	0.28%	0.02%	0.00%	0.00%
Allowances as a percentage of loan portfolio	3.18%	2.56%	2.20%	2.33%	1.76%

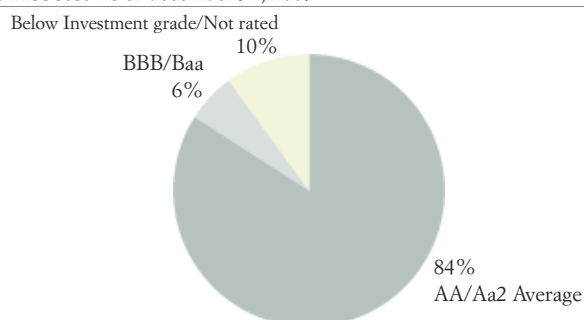
Liquid Investments

At December 31 2007, liquid investments totaled USD 2.5 billion, which represented 20% of assets and 30% of borrowings. The investment portfolio was characterized by a short duration (an average of 0.2 years) and excellent credit quality (Graph N°3): 84% of

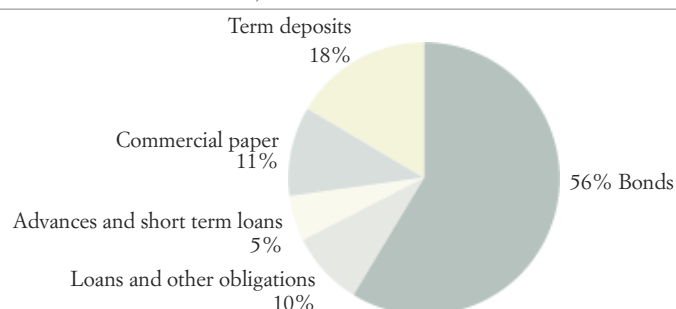
liquid assets was rated AA/Aa2 average or better, 6% was rated BBB/Baa, and 10% was non-investment grade. CAF's policies require that at least 80% of liquid investments be held in investment-grade instruments and that the average duration be no more than 1.5 years.

Graph N° 3

Liquid Assets. As of december 31, 2007



Graph N° 4

Liabilities. As of december 31, 2007

Funding

During 2007 bond issuance reached approximately USD 718 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 Venezuelan market for VEB 107,500 (USD 50 million) and VEB 127,500 million (USD 59 million), respectively. In addition, CAF registered a new issuance program in Mexico and placed its first local currency bond in that market for MXP 750 million (USD 69 million).

Besides the regional issues, CAF successfully reopened its 2017 Yankee bond issued in 2006 for USD 250 million. This total responded to the high demand received from investors, which was triple the amount initially announced by the Corporation. In the Japanese market, CAF issued two bonds for a combined JPY 35 billion (approximately USD 290 million). The first, for JPY 30 billion, was a two-series bond with a three and seven year maturity, respectively, and with the lowest margins ever achieved by the Corporation in that market. The amount initially offered by CAF was 15 billion but the demand received was more than double. The second Samurai bond was issued for JPY 5 billion and attracted both new and traditional investors.

Table N° 3

2007 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
February	Venezuelan	VEB 107,500	50
March	Venezuelan	VEB 127,500	59
June	Samurai	JPY 30,000	245
November	Mexican	MXP 750	69
November	Samurai	JPY 5,000	46
	Sub-total 2007		718
	Total 1993-2007		8,631
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	655
	Sub-Total 2007		2,655

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 latter being increased to USD 1 billion in 2007 from USD 500 million– as well as the Spanish Short-term Notes Program.

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

At December 31, 2007, 67% of CAF's funding came from the international capital markets. Bonds represented the main source

of funds with 56% of total funding (Graph N°4). Moreover, 18% came from deposits from institutions in the region, 16% was from commercial paper and other short-term loans, and 10% 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 multi-lateral financial institutions.

Capital

During 2007, CAF received new capital contributions from its shareholders for USD 122 million. At December 31, 2007, shareholders' equity totaled USD 4.1 billion, a 12% increase compared to the end of 2006. This increase derived from new capital contri-

butions 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 N°4). Finally, as of the end of 2007, all shareholders were current in their equity obligations to CAF.

Table N° 4

Capitalization Ratios

	2003	2004	2005	2006	2007
Gearing (times) ¹	2.9	2.7	2.4	2.4	2.4
Leverage (times) ²	2.4	2.1	1.8	1.8	2.0
Capital/Risk Weighted Assets (BIS) ³	34.3%	36.5%	40.6%	41.1%	36.3%*

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 capitalization ratio was calculated based on the new methodology according to Basel II.

Asset-Liability Management

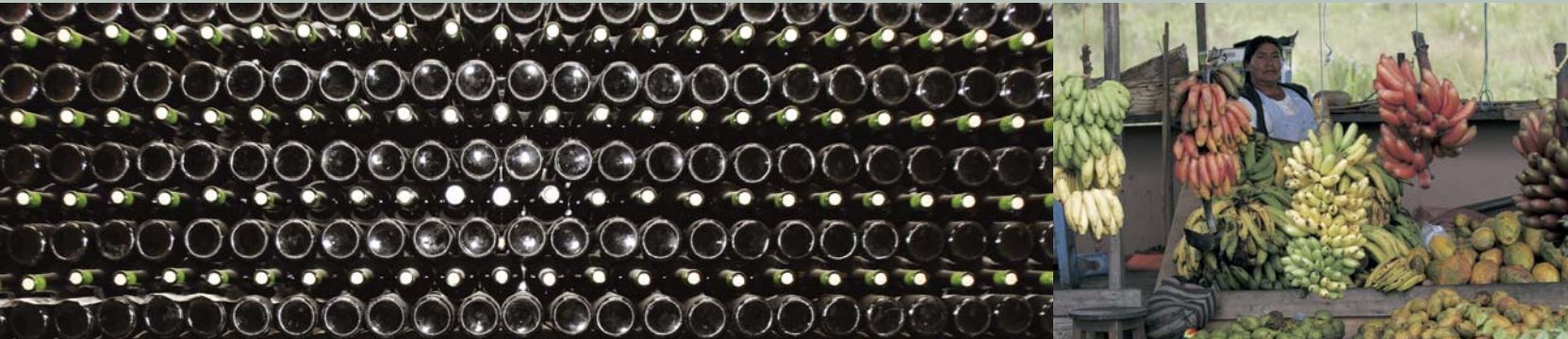
In order to reduce foreign exchange and interest rate risks, CAF's lending and borrowing activities are primarily conducted in floating-rate USD. At December 31, 2007, more than 99.9% of assets and 97.2% of liabilities were denominated in USD after swaps, and 99.6% of assets and 99.9% of liabilities 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 4.0 billion at the end of 2007. 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, 2007, the average life of its assets was 4.3 years and that of its liabilities was 3.6 years.









Management's Report on the Effectiveness
of Internal Control over Financial Reporting p. 149
Independent Accountants' Report on Management's
Assertion on Effectiveness of Internal
Controls over Financial Reporting p. 150
Independent Auditors' Report p. 151

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, 2007, 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").

Management has assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007. Based on this assessment, the Corporation's Management concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2007.

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.

The Corporation's financial statements as of December 31, 2007, 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 the Corporation'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 the Corporation's internal control over financial reporting as of December 31, 2007.

Handwritten signature of L. Enrique García in black ink.

L. Enrique García
President and
Chief Executive Officer

Handwritten signature of Hugo Sarmiento K. in black ink.

Hugo Sarmiento K.
Corporate Vice President,
Chief Financial Officer

Handwritten signature of Marcos Subía G. in black ink.

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, 2007, 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. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control 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 maintained effective internal control over financial reporting as of December 31, 2007 is fairly stated, in all material respects, based on the criteria established in the COSO Report.

KPMG



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, 2007 and 2006, 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, 2007 and 2006, 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

Corporación Andina de Fomento (CAF)**Balance Sheets**

December 31, 2007 and 2006 (In thousands of U.S. dollars)

Assets	Note	2007	2006
Cash and due from banks		3,735	8,997
Deposits with banks	2	325,025	353,442
Marketable securities:			
Trading	3	882,726	1,001,618
Held-to-maturity	3	1,099,801	356,128
Securities purchased under resale agreements		36,400	-
Other investments	2	109,868	210,430
Loans:	4	9,547,987	8,097,472
Less loan commissions, net of origination costs		46,940	59,982
Less allowance for losses	4	168,257	188,608
Loans, net		<u>9,332,790</u>	<u>7,848,882</u>
Equity investments	5	74,317	93,426
Interest and commissions receivable		231,510	226,530
Property and equipment	6	23,816	23,931
Other assets	7	477,199	316,109
Total assets		<u>12,597,187</u>	<u>10,439,493</u>
Liabilities and Stockholders' Equity			
Deposits	8	1,521,047	449,797
Commercial paper	9	888,246	773,354
Advances and short-term borrowings		398,931	339,256
Bonds	10	4,637,140	4,362,161
Borrowings and other obligations	11	808,487	559,135
Accrued interest and commissions payable		153,938	136,878
Accrued expenses and other liabilities	12	62,089	126,185
Total liabilities		<u>8,469,878</u>	<u>6,746,766</u>
Subscribed and paid-in capital (authorized capital US\$5,000 million)		2,014,750	1,870,615
Additional paid-in capital		234,355	256,707
Reserves		1,477,405	1,244,752
Retained earnings		400,799	320,653
Total stockholders' equity	14	<u>4,127,309</u>	<u>3,692,727</u>
Total liabilities and stockholders' equity		<u>12,597,187</u>	<u>10,439,493</u>

See accompanying notes to the financial statements.

Corporación Andina de Fomento (CAF)**Statements of Income**

Years ended December 31, 2007 and 2006 (In thousands of U.S. dollars)

	Nota	2007	2006
Interest income:			
Loans	1(f)	700,397	600,784
Investments and deposits with banks	1(e)	89,588	95,830
Loan commissions	1(f)	33,428	38,892
Total interest income		<u>823,413</u>	<u>735,506</u>
Interest expense:			
Deposits		34,605	20,587
Commercial paper		51,254	28,831
Advances and short-term borrowings		23,469	13,804
Bonds		262,991	264,424
Borrowings and other obligations		36,319	31,077
Commissions		5,291	5,350
Total interest expense		<u>413,929</u>	<u>364,073</u>
Net interest income		409,484	371,433
Provision for (credit to) allowance for loan losses	4	<u>(23,133)</u>	<u>19,000</u>
Net interest income, after provision for (credit to) allowance for loan losses		432,617	352,433
Non-interest income:			
Other commissions		3,960	4,090
Dividends and equity in earnings of investees		16,937	5,126
Gain on sale of equity investments		8,878	-
Ineffectiveness arising from fair value hedges		-	4,372
Other income		1,993	1,399
Total non-interest income		<u>31,768</u>	<u>14,987</u>
Non-interest expenses:			
Administrative expenses		51,195	46,414
Ineffectiveness arising from fair value hedges		12,278	-
Impairment charge for equity investments	5	82	190
Other expenses		31	163
Total non-interest expenses		<u>63,586</u>	<u>46,767</u>
Net income		<u>400,799</u>	<u>320,653</u>

See accompanying notes to the financial statements.

Corporación Andina de Fomento (CAF)**Statements of Stockholders' Equity**

Years ended December 31, 2007 and 2006 (In thousands of U.S. dollars)

	Note	Subscribed and paid-in capital	Additional paid-in capital	Reserve pursuant to		Total reserves	Retained earnings	Total stockholders' equity
				General reserve	Article N° 42 of by-laws			
Balances at December 31, 2005		1,681,885	239,524	805,640	226,874	1,032,514	283,238	3,237,161
Capital increase	14	95,355	110,558	-	-	-	-	205,913
Stock dividends	14	93,375	(93,375)	-	-	-	-	-
Net income	14	-	-	-	-	-	320,653	320,653
Appropriated for general reserve	14	-	-	183,738	-	183,738	(183,738)	-
Appropriated for reserve pursuant to Article N° 42 of by-laws	14	-	-	-	28,500	28,500	(28,500)	-
Distributions to stockholders' funds	15	-	-	-	-	-	(71,000)	(71,000)
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		<u>2,014,750</u>	<u>234,355</u>	<u>1,189,931</u>	<u>287,474</u>	<u>1,477,405</u>	<u>400,799</u>	<u>4,127,309</u>

See accompanying notes to the financial statements.

Corporación Andina de Fomento (CAF)**Statements of Cash Flows**

Years ended December 31, 2007 and 2006 (In thousands of U.S. dollars)

	Note	2007	2006
Cash flows from operating activities:			
Net income		400,799	320,653
Adjustments to reconcile net income to net cash provided by operating activities -			
Loss (gain) on sale of trading securities	3	1,150	(4)
Amortization of loan commissions, net of origination costs		(21,464)	(13,764)
Provision for (credit to) allowance for loan losses	4	(23,133)	19,000
Impairment charge for equity investments	5	82	190
Equity in earnings of investees		(16,110)	(2,447)
Gain on sale of equity investments		(8,878)	-
Amortization of deferred charges		2,472	2,971
Depreciation of property and equipment	6	3,477	3,234
Provision for employees' severance indemnities and benefits		5,928	5,476
Provision for employees' savings plan		1,465	1,491
Net changes in operating assets and liabilities -			
Severance indemnities paid or advanced		(2,360)	(3,055)
Employees' savings plan paid or advanced		(876)	(606)
Trading securities, net	3	117,742	103,954
Interest and commissions receivable		(4,980)	(44,591)
Other assets		(64)	5,987
Accrued interest and commissions payable		17,060	25,924
Accrued expenses and other liabilities		(5,526)	(46,261)
Total adjustments and net changes in operating assets and liabilities		<u>65,985</u>	<u>57,499</u>
Net cash provided by operating activities		<u>466,784</u>	<u>378,152</u>
Cash flows from investing activities:			
Purchases of held-to-maturity securities	3	(3,825,725)	(1,692,804)
Maturities of held-to-maturity securities	3	3,082,052	1,424,561
Securities purchased under resale agreements		(36,400)	-
Purchases of other investments	2	(368,918)	(588,132)
Maturities of other investments	2	469,480	636,278
Loan origination and principal collections, net	4	(1,439,338)	(669,082)
Sales of equity investments	5	44,015	23,477
Purchases of property and equipment	6	(3,362)	(16,179)
Net cash used in investing activities		<u>(2,078,196)</u>	<u>(881,881)</u>
Carried forward,		<u>(1,611,412)</u>	<u>(503,729)</u>

Corporación Andina de Fomento (CAF)**Statements of Cash Flows, Continued**

Years ended December 31, 2007 and 2006 (In thousands of U.S. dollars)

	Note	2007	2006
Brought forward,		(1,611,412)	(503,729)
Cash flows from financing activities:			
Net increase in deposits		1,071,250	63,378
Net increase in commercial paper		115,490	60,182
Proceeds from advances and short-term borrowings		1,262,019	864,993
Repayment of advances and short-term borrowings		(1,201,502)	(969,444)
Proceeds from issuance of bonds	10	718,428	810,228
Repayment of bonds	10	(671,396)	(504,678)
Proceeds from borrowings and other obligations	11	374,043	154,227
Repayment of borrowings and other obligations	11	(124,382)	(83,942)
Distributions to stockholders' funds	15	(88,000)	(71,000)
Proceeds from issuance of shares	14	121,783	205,913
Net cash provided by financing activities		1,577,733	529,857
Net increase (decrease) in cash and cash equivalents		(33,679)	26,128
Cash and cash equivalents at beginning of year		362,439	336,311
Cash and cash equivalents at end of year		328,760	362,439
Consisting of:			
Cash and due from banks		3,735	8,997
Deposits with banks		325,025	353,442
		328,760	362,439
Supplemental disclosure:			
Interest paid during the year		386,469	327,725
Noncash financing activities:			
Change in other assets due to fair value hedging relationships		151,221	70,044
Change in other liabilities due to fair value hedging relationships		(62,727)	68,077

See accompanying notes to the financial statements.

(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.

(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 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 for 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. In the case of the sovereign loan portfolio a factor of preferred creditor status is also considered.

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) Recent Accounting Pronouncements

In September, 2006 the FASB issued SFAS N° 157, "Fair Value Measurements." SFAS N° 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS N° 157 applies when other accounting pronouncements require or permit fair value measurements. SFAS N° 157 is effective for fiscal years beginning after November 15, 2007. The application of SFAS N° 157 is not expected to have any material impact on the Corporation's financial statements.

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 Corporation is evaluating the impact of the possible adoption of SFAS N° 159 on the Corporation's financial statements.

(2) Deposits with Banks and Other Investments

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

	December 31,	
	2007	2006
U.S. dollars	324,549	350,820
Other currencies	476	2,622
	<u>325,025</u>	<u>353,442</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, 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>
At December 31, 2006 -			
U. S. Treasury Notes	49,904	0.42	3.24
Bonds of non-U.S. governments and government entities	149,648	1.61	6.07
Financial institutions and corporate securities	802,066	1.53	5.47
	<u>1,001,618</u>	<u>1.49</u>	<u>5.45</u>

Trading securities include net unrealized losses and gains of US\$6,803 and US\$167 at December 31, 2007 and 2006, 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>
At December 31, 2006 -				
Bonds of non-U.S. governments and government entities	60,483	17	-	60,500
Financial institutions and corporate securities	295,645	-	-	295,645
	<u>356,128</u>	<u>17</u>	<u>-</u>	<u>356,145</u>

Held-to-maturity securities mature as follows:

	December 31,	
	2007	2006
Remaining Maturities -		
Less than one year	1,099,801	316,644
Between one and two years	-	14,996
Between two and three years	-	10,496
Between three and four years	-	13,992
	<u>1,099,801</u>	<u>356,128</u>

(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	Other	Total
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>
At December 31, 2006 -							
Loans	<u>1,024,293</u>	<u>1,619,530</u>	<u>1,370,785</u>	<u>1,801,741</u>	<u>1,723,523</u>	<u>557,573</u>	8,097,445
Fair value adjustments on hedging activities							27
Carrying value of loans							<u>8,097,472</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, 2007 and 2006, loans in other currencies were granted for an equivalent of US\$2,337 and US\$4,066, respectively, principally in Peruvian nuevos soles. At December 31, 2007 and 2006, loans include fixed interest rate loans of US\$54,282 and US\$78,987, respectively.

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

	December 31,		December 31,	
	2007	2006	2007	2006
	Amount	Average yield (%)	Amount	Average yield (%)
Loan	9,547,987	7.22	8,097,445	8.19

Loans by industry segments are as follows:

	December 31,		December 31,	
	2007	%	2006	%
Agriculture, hunting and forestry	113,399	1	142,056	2
Exploitation of mines and quarries	70,000	1	60,000	1
Manufacturing industry	278,644	3	193,379	2
Supply of electricity, gas and water	1,079,173	11	908,160	11
Transport, warehousing and communications	3,053,811	32	3,189,947	39
Commercial banks	1,636,937	17	460,089	6
Development banks	106,260	1	266,468	3
Social and other infrastructure programs	3,196,974	33	2,850,809	35
Other activities	12,789	1	26,537	1
	9,547,987	100	8,097,445	100

Loans mature as follows:

	December 31,	
	2007	2006
Remaining maturities -		
Less than one year	2,290,503	1,438,002
Between one and two years	964,836	997,762
Between two and three years	827,646	991,247
Between three and four years	884,622	848,419
Between four and five years	868,709	839,428
Over five years	3,711,671	2,982,587
	9,547,987	8,097,445

At December 31, 2007 and 2006, all loans were performing except for certain loans which were classified as impaired and were in nonaccrual status. The average recorded investment in impaired loans during the years ended December 31, 2007 and 2006 was approximately US\$30 and US\$199, respectively.

Had these loans not been in impairment status, income for the year ended December 31, 2006 would have increased by US\$16. In 2007 the results would not have been materially impacted.

Loan Participations and A/B Loans

The Corporation administers loan participations provided to clients, and assumes the credit risk only for that portion of the loan owned by the Corporation. During 2006, the Corporation administered loans of this nature whereby other financial institutions provided funds amounting to US\$69,833.

Allowance for Loan Losses

Movements of the allowance for loan losses follow:

	December 31,	
	2007	2006
Balances at beginning of year	188,608	161,629
Provision for (credit to) results of operations	(23,133)	19,000
Recoveries	2,970	9,043
Loans charged-off	(188)	(1,064)
Balances at end of year	<u>168,257</u>	<u>188,608</u>

(5) Equity Investments

A summary of equity investments follows:

	December 31,	
	2007	2006
Direct investments in companies (including investments accounted for using the equity method of US\$5,727 and US\$5,668, at December 31, 2007 and 2006, respectively)	14,389	10,371
Investment funds (including investments accounted for using the equity method of US\$47,458 and US\$62,197, at December 31, 2007 and 2006, respectively)	<u>59,928</u>	<u>83,055</u>
	<u>74,317</u>	<u>93,426</u>

The Corporation recorded an impairment charge of US\$82 and US\$190 for the years ended December 31, 2007 and 2006, respectively, related to equity investments accounted for at cost.

(6) Property and Equipment

A summary of property and equipment follows:

	December 31,	
	2007	2006
Land	14,069	14,069
Buildings	19,353	19,353
Buildings improvements	13,686	10,939
Furniture and equipment	8,996	8,298
Vehicles	334	328
	<u>56,438</u>	<u>52,987</u>
Less accumulated depreciation	<u>32,622</u>	<u>29,056</u>
	<u>23,816</u>	<u>23,931</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,	
	2007	2006
Deferred charges	31,859	27,170
Derivative assets (see note 17)	436,585	285,364
Other assets	8,755	3,575
	<u>477,199</u>	<u>316,109</u>

(8) Deposits

The Corporation's deposits of US\$1,521,047 at December 31, 2007 mature in 2008 (US\$449,797 at December 31, 2006 - mature in 2007). At December 31, 2007 and 2006, the interest rates on deposits ranged from 4.33% to 5.33% and from 5.18% to 5.44%, respectively.

(9) Commercial Paper

The Corporation's commercial paper of US\$888,246 at December 31, 2007 matures in 2008 (US\$773,354 at December 31, 2006 - matures in 2007). At December 31, 2007 and 2006, the interest rates on commercial paper ranged from 4.49% to 7.02% and from 3.62% to 5.43%, respectively.

(10) Bonds

An analysis of bonds follows:

	2007		Weighted average cost, after swaps (%) (Year-end)	December 31,		Weighted average cost, after swaps (%) (Year-end)
	Principal outstanding			Principal outstanding		
	At original exchange rate	At spot exchange rate		At original exchange rate	At spot exchange rate	
U.S. dollars	2,496,144	2,496,144	6.20	2,630,340	2,630,340	6.34
Yen	474,651	486,941	5.66	184,332	168,011	5.96
Colombian Pesos	100,000	135,298	4.96	100,000	121,500	5.43
Pounds Sterling	63,375	81,447	7.98	63,405	79,783	7.97
Euros	711,489	956,485	5.83	998,659	1,187,727	6.25
Mexican Pesos	68,807	68,897	5.33	-	-	-
Peruvian Nuevos Soles	75,748	82,938	5.80	75,748	77,698	5.87
Venezuelan Bolivars	209,302	209,302	4.94	100,000	100,000	5.28
	<u>4,199,516</u>	4,517,452		<u>4,152,484</u>	4,365,059	
Fair value adjustments on hedging activities		119,688			(2,898)	
Carrying value of bonds		<u>4,637,140</u>			<u>4,362,161</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,	
	2007	2006
Remaining maturities -		
Less than one year	137,131	499,593
Between one and two years	576,348	137,646
Between two and three years	371,305	734,703
Between three and four years	783,722	162,709
Between four and five years	761,539	783,869
Over five years	<u>1,569,471</u>	<u>1,833,964</u>
	<u>4,199,516</u>	<u>4,152,484</u>

At December 31, 2007 and 2006, fixed interest rate bonds amounted to US\$3,193,182 and US\$2,894,621, respectively, of which US\$941,182 and US\$758,896, respectively, are denominated in yen, pounds sterling, euros, Colombian pesos and Peruvian nuevos soles.

(11) Borrowings and Other Obligations

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

	2007		Weighted average cost, after swaps (%) (Year-end)	December 31,		Weighted average cost, after swaps (%) (Year-end)
				2006		
	Principal outstanding			Principal outstanding		
	At original exchange rate	At spot exchange rate		At original exchange rate	At spot exchange rate	
U.S. dollars	799,352	799,352	5.39	539,092	539,092	5.84
Yen	3,922	4,427	6.56	11,766	12,601	4.18
Euros (at spot rate)	654	654	4.80	1,899	1,899	5.41
Peruvian Nuevos Soles	2,337	2,337	5.90	4,066	4,066	5.99
Other currencies (at spot rate)	<u>2,042</u>	<u>2,042</u>	-	<u>1,823</u>	<u>1,823</u>	-
	<u>808,307</u>	<u>808,812</u>		<u>558,646</u>	<u>559,481</u>	
Fair value adjustments on hedging activities		<u>(325)</u>			<u>(346)</u>	
Carrying value of borrowings and other obligations		<u>808,487</u>			<u>559,135</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, 2007 and 2006, there are fixed interest-bearing borrowings and other obligations amounting to US\$14,514 and US\$20,322, respectively.

At December 31, 2007 borrowing and other obligations include advances for US\$120,000 with maturities over one year. Those advances cause interest between 4.61% and 5.13%.

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

	December 31,	
	2007	2006
Remaining maturities -		
Less than one year	191,285	104,880
Between one and two years	144,244	57,072
Between two and three years	114,516	144,703
Between three and four years	120,910	28,996
Between four and five years	42,424	105,889
Over five years	194,928	117,106
	<u>808,307</u>	<u>558,646</u>

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

At December 31, 2007 and 2006 there were unused term credit facilities amounting to US\$223,700 and US\$227,700, respectively.

(12) Accrued Expenses and Other Liabilities

A summary of accrued expenses and other liabilities follows:

	December 31,	
	2007	2006
Employees' severance indemnities, benefits and savings plan	48,964	42,157
Derivative liabilities (see note 17)	8,131	70,858
Deferred income	2,942	2,442
Other liabilities	2,052	10,728
	<u>62,089</u>	<u>126,185</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 109 participants.

The measurement date used to determine pension benefit measures for the Plan is December 31.

The Plan's benefit obligation (PBO) and assets as of December 31, 2007 and 2006 follow:

	December 31,	
	2007	2006
Plan's benefit obligation (PBO)	577	189
Assets	<u>577</u>	<u>189</u>

Weighted-average assumptions used to determine net benefit cost from the origination of the Plan to December 31, 2007 and 2006 follow:

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

(14) Stockholders' Equity

Authorized Capital

The authorized capital of the Corporation at December 31, 2007 and 2006, amounts to US\$5,000,000, 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, 2007 and 2006, follows:

	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
At December 31, 2005	5	300,579	34,598	6,000	1,502,895	172,990	1,681,885
Dividends in shares	-	16,747	1,928	-	83,735	9,640	93,375
Issued for cash	-	15,061	4,010	-	75,305	20,050	95,355
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

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

	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
	<u>5</u>	<u>351,546</u>	<u>50,204</u>	<u>6,000</u>	<u>1,757,730</u>	<u>251,020</u>	<u>2,014,750</u>

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	-	-	-	-
	<u>622</u>	<u>3,110</u>	<u>5,468</u>	<u>27,340</u>	<u>180,000</u>	<u>900,000</u>	<u>42,400</u>	<u>212,000</u>

Subscribed and paid-in capital is held as follows at December 31, 2006:

	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
Bolivia	1	25,055	-	1,200	125,275	-	126,475
Colombia	1	92,198	-	1,200	460,990	-	462,190
Ecuador	1	26,632	-	1,200	133,160	-	134,360
Peru	1	94,121	-	1,200	470,605	-	471,805
Venezuela	1	94,120	-	1,200	470,600	-	471,800
Argentina	-	-	4,890	-	-	24,450	24,450
Brazil	-	-	11,924	-	-	59,620	59,620
Chile	-	-	310	-	-	1,550	1,550
Costa Rica	-	-	2,326	-	-	11,630	11,630
Dominican Republic	-	-	1,101	-	-	5,505	5,505
Jamaica	-	-	130	-	-	650	650
Mexico	-	-	3,333	-	-	16,665	16,665
Panama	-	-	1,663	-	-	8,315	8,315
Paraguay	-	-	1,292	-	-	6,460	6,460
Spain	-	-	11,035	-	-	55,175	55,175
Trinidad & Tobago	-	-	147	-	-	735	735
Uruguay	-	-	2,385	-	-	11,925	11,925
Commercial banks	-	261	-	-	1,305	-	1,305
	<u>5</u>	<u>332,387</u>	<u>40,536</u>	<u>6,000</u>	<u>1,661,935</u>	<u>202,680</u>	<u>1,870,615</u>

At December 31, 2006, 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	1,452	7,260	-	-	14,400	72,000	-	-
Colombia	1,654	8,270	-	-	50,400	252,000	-	-
Ecuador	-	-	-	-	14,400	72,000	-	-
Peru	-	-	-	-	50,400	252,000	-	-
Venezuela	-	-	-	-	50,400	252,000	-	-
Argentina	-	-	4,107	20,535	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Dominican Republic	-	-	3,304	16,520	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
Panama	-	-	506	2,530	-	-	-	-
Spain	-	-	-	-	-	-	40,000	200,000
Uruguay	-	-	1,410	7,050	-	-	-	-
	<u>3,106</u>	<u>15,530</u>	<u>9,327</u>	<u>46,635</u>	<u>180,000</u>	<u>900,000</u>	<u>42,400</u>	<u>212,000</u>

General Reserve

The general reserve was set-up to cover possible contingencies. The stockholders decided to increase the reserve by US\$200,553 and US\$183,738 during the years ended December 31, 2007 and 2006, by appropriations from net income for the years ended December 31, 2006 and 2005, 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 2007 and 2006, it was authorized to increase the reserve by US\$32,100 and US\$28,500, from net income for the years ended December 31, 2006 and 2005, 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 2007 and 2006, the stockholders agreed to distribute US\$88,000 and US\$71,000, from retained earnings at December 31, 2006 and 2005, 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, 2007 and 2006:

	Notional amount		Fair value	
	Interest rate swap	Cross-currency swap	Derivative assets	Derivative liabilities
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>
At December 31, 2006 -				
Loans	15,000	-	-	32
Bonds	2,200,725	-	-	45,902
Bonds	-	1,521,876	282,809	23,877
Borrowings and other obligations	-	11,766	641	309
Commercial paper	-	192,263	1,914	738
	<u>2,215,725</u>	<u>1,725,905</u>	<u>285,364</u>	<u>70,858</u>

For the years ended December 31, 2007 and 2006 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

The following table presents the carrying amounts and estimated fair values of the Corporations' financial instruments at December 31, 2007 and 2006. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties:

	December 31,			
	2007		2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash and due from banks	3,735	3,735	8,997	8,997
Deposits with banks	325,025	325,025	353,442	353,442
Trading securities	882,726	882,726	1,001,618	1,001,618
Held-to-maturity securities	1,099,801	1,099,488	356,128	356,145
Securities purchased under resale agreements	36,400	36,400	-	-
Other investments	109,868	109,868	210,430	210,430
Loans, net	9,332,790	9,337,914	7,848,882	7,853,270
Equity investments	74,317	74,317	93,426	93,426
Interest and commissions receivable	231,510	231,510	226,530	226,530
Derivative contracts (included in other assets)	436,585	436,585	285,364	285,364
Financial liabilities:				
Deposits	1,521,047	1,521,047	449,797	449,797
Commercial paper	888,246	888,246	773,354	773,354
Advances and short-term borrowings	398,931	398,931	339,256	339,256
Bonds	4,637,140	4,640,000	4,362,161	4,366,054
Borrowings and other obligations	808,487	807,933	559,135	558,280
Derivative contracts (included in accrued expenses and other liabilities)	8,131	8,131	70,858	70,858
Accrued interest and commissions payable	153,938	153,938	136,878	136,878

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and due from banks, deposits with banks, other assets, deposits, commercial paper, advances and short-term borrowings, accrued interest and commissions, accrued expenses: The carrying amounts approximate fair value because of the short maturity of these instruments.

Marketable securities: The fair values of held-to-maturity securities are based on quoted market prices at the reporting date for those or similar securities. Trading securities are carried at fair value based on quoted market prices.

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 a financial analysis of the investees.

Derivative assets and liabilities: Current market prices obtained from third party banks were used to estimate fair values of interest rate and foreign currency swap agreements.

Bonds, borrowings and other obligations: The fair value of bonds, borrowings and other obligations is determined using either broker quotes or current rates offered to the Corporation for similar debt of the same remaining maturities.

(19) Commitments and Contingencies

Commitments and contingencies include the following:

	December 31,	
	2007	2006
Credit agreements subscribed	1,668,981	2,133,410
Lines of credit	2,248,424	1,232,221
Letters of credit	24,654	20,065
Guarantees	<u>242,888</u>	<u>544,630</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:

	December 31,	
	2007	2006
Less than one year	88,233	273,480
Between one and two years	-	-
Between two and three years	-	109,540
Over five years	<u>154,655</u>	<u>161,610</u>
	<u>242,888</u>	<u>544,630</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, 2007 and 2006 was nil.

Governing bodies

Shareholders' Assembly ¹

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 first two series may be subscribed by the governments of the five member countries, and by either public, semi-public or private institutions. Series "C" shares may be subscribed by governments, public or private institutions of countries outside the Andean region, as well as by international organizations. 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 Directors ²

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 Committee ³

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 Corporation'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 Corporation'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 Corporation'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 38th Ordinary Shareholders Meeting was held on March 6th, 2007.

² During 2007, three Board of Directors Meetings were held: March 6th, July 9th, and December 4th.

³ The XIV Audit Committee was held on March 5th.

Board of Directors

(as of December 31st, 2007)

Chairman of the Board (2007–2008)¹
 Fausto Ortiz
 Minister of Economy and Finance

SERIES A SHAREHOLDERS

BOLIVIA
 Principal: Gabriel Loza
 Minister of Development Planning
 Alternate: José Camargo Torrez
 Vice–Minister for Public Sector Investment and External Financing

COLOMBIA
 Principal: Oscar Iván Zuluaga
 Minister of Finance and Public Credit

Alternate: Luis Guillermo Plata
 Foreign Trade Minister

ECUADOR
 Principal: Eduardo Valencia
 Chairman of the Board of the National Finance Corporation
 Alternate: Raúl Sagasti
 Minister of Industry and Competitiveness

SERIES B SHAREHOLDERS

BOLIVIA
 Principal: Luis Alberto Arce
 Finance Minister
 Alternate: Oscar Navarro
 Vice–Minister of Treasury and Public Credit

COLOMBIA
 Principal: José Darío Uribe
 General Manager of the Banco de la República
 Alternate: Carolina Rentería
 Director of the National Planning Department

ECUADOR
 Principal: Fausto Ortiz
 Minister of Economy and Finance
 Alternate: Marcos López
 Member of the Board of Directors of the Central Bank of Ecuador

SERIES C SHAREHOLDERS

BRASIL
 Principal: Alexandre Meira da Rosa
 Secretary for International Affairs
 Ministry of Planning, Budget and Management

ESPAÑA
 Principal: Pedro Solbes Mira
 Second Vice–President of the Government and Economy
 and Finance Minister

PERÚ
 Principal: Mercedes Rosalba Araóz
 Minister of Foreign Trade and Tourism
 Alternate: Luis Carranza
 Minister of Economy and Finance

VENEZUELA
 Principal: Rodrigo Cabeza
 The Power of the People's Finance Minister
 Alternate: Jorge Giordani
 The Power of the People's Minister of Planning and Development

PERÚ
 Principal: Luis Rebolledo
 Chairman of the Board of the Financial Corporation for Development
 (Corporación Financiera de Desarrollo–Cofide)
 Alternate: José Berley Arista Arbildo
 Vice–Minister of Finance

VENEZUELA
 Principal: María Cristina Iglesias
 The Power of the People's Minister for Light Industry and Trade
 Alternate: Rafael Isea
 President of the Economic and Social Development Bank of Venezuela

BANCA
 Principal: Gustavo Marturet
 President of the Banco Mercantil de Venezuela
 Alternate: Juan Emilio Unzueta
 Chairman of the Board, Banco Mercantil–Santa Cruz S.A. de Bolivia

ARGENTINA
 Alternate: Oscar Tangelson
 Secretary for Economic Policy and Vice–Minister of Economy

COSTA RICA
 Alternate: Francisco de Paula Gutiérrez
 President of the Central Bank of Costa Rica

¹ Until March 2007, Alberto Carrasquilla, Colombia's Minister of Finance and Public Credit, was the Chairman of the Board.
 Until July 2007, Ricardo Patiño, Minister of Economy and Finance, was the Chairman of the Board.

Executive management

(as of December 31st, 2007)

President and Chief Executive Officer L. Enrique García

Executive Vice President Luis Enrique Berrizbeitia

General Advisor Luis Sánchez Masi

Chief Legal Counsel Fernando Dongilio

Corporate Comptroller Marcello Zalles

Director, Risk Management Marcia Arliani

Director, Internal Audit

Chief Credit Officer Stephen Foley

Director, Special Assets Renny López

Head of Public Policy and Competitiveness Office and Chief Economist Luis Miguel Castilla

Director, Competitiveness Programs Germán Rios

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

Director, Operations Control Germán Alzate

Director, Information Technology Esteban Cover

Head of External Affairs Office Ana Mercedes Botero

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 Emilio Uquillas

Country Representative, Bolivia José Carrera

Country Representative, Brazil Moira Paz

Country Representative, Colombia Freddy Rojas

Country Representative, Ecuador Luis Palau

Country Representative, Peru Eleonora Silva

Country Representative, Spain Germán Jaramillo

Assistant Country Representative, Peru Ricardo Campins

Corporate Vice President, Infrastructure Antonio Juan Sosa

Director, Projects Manuel Llosa

Director, Sectorial Analysis and Programming Rolando Terrazas

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 Mauricio Yépez

Director, Financial Institutions and Capital Markets Félix Bergel

Director, SMEs and Microfinance Manuel Malaret

Director, Sector Policies and Institutional Strength Advisor, Financial Systems Camilo Arenas

Corporate Vice President, Social and Environmental Development

Director, Social Development Bernardo Requena

Director, Environment María Teresa Szauer

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

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 socio-economic 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.

Clients

The Corporation 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 infrastructural 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.

Products and services

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 re-

gion and stimulates the activities of private financial sources by offering conditions that would otherwise not be available.

Financial advice

The Corporation 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 its 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 decentral-

ization 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.

Other products and services

Compensatory Financing Fund (FFC)

The Financing Compensation Fund (FFC) is a mechanism created by CAF to reduce the cost of sovereign risk project financing with a high development component. The Fund gives priority to projects which: (i) directly benefit marginal communities in the area of drinking water and drainage, health and environmental clean-ups, education, and rural and community development; (ii) reduce asymmetries between countries; (iii) have been defined as priorities by the countries themselves. To this end, the FFC provides non-reimbursable financing for part of the interest and commission costs of eligible operations.

Fund for the Promotion of Sustainable Infrastructure Projects

The Fund for the Promotion of Sustainable Infrastructure Project (Proinfra) is designed to finance the preparation, financial structuring and evaluation of sustainable infrastructure projects with a significant impact on the region's economies and which contribute to the integration of shareholder countries. CAF gives priority to projects which represent innovative approaches to the application of financial structures and contribute to developing or strengthening the country's capacity to plan, prepare or finance infrastructural projects. Proinfra funds are utilized to finance infrastructural studies by sector, investment options, pre-feasibility, feasibility and detailed engineering studies, as well as studies of environmental and social impact. They are also used for consultancy in relation to project structuring and finance, concession and tendering processes, technical assistance in the creation and fortification of public investment planning systems and Public/Private Participations.

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