Annual Report 2006

CAF

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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 mainly from industrialized countries to Latin America, serving as liaison between the region and international capital markets, and promoting business and investment opportunities.

Financial highlights

- Total assets: US$ 10,439 million (US$ 9,482 million in 2005)
- Liquid assets: US$ 1,931 million (US$ 1,788 million in 2005)
- Investment and loan portfolio: US$ 8,191 million (US$ 7,462 million in 2005)
- Paid-in capital: US$ 1,871 million (US$ 1,682 million in 2005)
- Total shareholders' equity: US$ 3,693 million (US$ 3,237 million in 2005)
- Net income: US$ 321 million (US$ 283 million in 2005)

During 2006, CAF:

- matched the impressive rate of economic growth in the region with the approval of a record US$ 5,521 million worth of operations, including more than US$ 1,200 million for infrastructural projects to support South American integration; almost US$ 1,400 million for private investment, and more than US$ 800 million for social development projects in shareholder countries;
- extended its operations in *Series C* shareholder countries, whose approved operations amounted to 24% of the total, and moved forward with the incorporation of these countries as full members, in order to strengthen CAF's leadership role in Latin American integration processes;
- achieved innovations in the structure and financing of large infrastructural projects, initiated local currency operations, broadened the scope of its operations with sub-national governments, promoted financial mechanisms to advance the environmental aspects of development within the framework of the Kyoto Protocol, and intensified its efforts in the field of investment banking and financial consultancy;
- channelled non-reimbursable resources totalling US$ 38 million into a number of strategic programs, created the Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra) and strengthened the Financing Compensation Fund (FCF) with an additional US$ 40 million;
- debated and disseminated information on development issues in Latin America with the aim of promoting regional consensus and thereby contributing to a Comprehensive Development Agenda which furthers sustainable and inclusive growth; and
- presented an excellent all-round financial performance, including record profits of US$ 321 million and fresh capital contributions amounting to US$ 206 million, and achieved a credit risk rating which confirms its status as Latin America's most highly-rated frequent issuer.

Message from the Executive President

IT IS A PLEASURE TO PRESENT THE ANNUAL REPORT and audited financial statements for the year 2006.

One of the most relevant challenges raised by the positive economic cycle in Latin America in recent years, is the imperative to translate favourable conditions into a sustainable and high quality growth.

It is in this context that the Agenda for Comprehensive Development proposed by CAF seeks three fundamental objectives: macroeconomic stability, microeconomic efficiency and social equity. Synergy among these elements must be achieved while promoting a stronger democratic framework, greater international insertion, and environmental sustainability. A special chapter of this Annual Report is devoted to the latter, demonstrating the Institution's commitment to the development of environmental initiatives within the region.

2006 marks a new historic high in the level of approvals. Operations in *Series C* shareholders also registered significant increases, and important progress was made towards the incorporation of new *Series A* shareholders. In addition to rating upgrades, CAF maintained an important presence in international capital markets, showing a highly satisfactory financial performance.

I would like to thank our shareholders, Board members, and employees for their support. The results achieved encourage us to continue offering efficient and creative solutions to our member countries.

L. Enrique García
Executive President

Economic overview and regional integration

LATIN AMERICAN COUNTRIES exhibited a strong macroeconomic performance in 2006, setting ground for an optimistic overall assessment. Regional Gross Domestic Product (GDP) grew 5.2% in 2006, outperforming the outcome in 2005. In spite of the differences across countries, investment, exports, and consumption have expanded in general, and this is beginning to affect imports and domestic credit.

This upbeat performance was accompanied by an improvement of foreign and fiscal accounts, and by greater stability in price levels and financial variables. However, the effects of changes in the terms of trade vary widely across countries and policy orientation is heterogeneous. For instance, Chile recorded a large fiscal surplus, while Brazil and Colombia ran relatively large deficits, considering the economic expansion they were experiencing. Bolivia and Venezuela exhibited large current

Main indicators

	Latin America			
	2003	2004	2005	2006*
Real Sector				
GDP (current millions US$)	1,760,518	2,020,794	2,436,433	2,730,274
Real GDP Growth (%)	1.9	6.2	4.6	5.2
Savings (% of GDP)	19.8	22.1	22.5	23.6
Investment (% of GDP)	19.3	21.0	21.0	21.7
Unemployment (%)	10.4	9.2	9.2	8.6
Population (MM)	481.1	493.4	500.1	516.9
External Sector				
Exports FOB (millions US$)	373,672	460,551	559,390	625,076
Imports FOB (millions US$)	326,793	391,796	466,815	515,675
Trade Balance (millions US$)	46,880	68,755	92,575	95,299
Current Account (% of GDP)	0.50	1.03	1.47	2.22
Net International Reserves (millions US$)	190,032	213,865	244,998	299,572
Foreign Direct Investment (% of GDP)	2.09	2.28	2.02	1.66
Total External Debt (% of GDP)	44.80	39.40	31.00	25.50
Fiscal Sector, Prices and Sovereign Risk				
Fiscal Balance NFPS (% of GDP)	-2.5	-1.0	-0.7	-0.7
Inflation (%, end of period)	7.7	7.1	6.6	5.2
Sovereign Bonds Spread (Basic points) 1/	1,562	1,309	747	220

Source: Public Policies and Competitiveness Office, CAF

* PRELIMINARY DATA

1/ The EMBI+ spread is calculated, for Latin America includes Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Peru and Venezuela.

GDP growth in Latin America reached 5.2% for a five-year record high.

account surpluses, whereas Central American countries –excluding Mexico– posted large deficits. While Peru kept inflation at very low levels, Argentina and Venezuela registered two-digit rates.

In spite of such differences, the region's economic performance was strong and mainly driven by a favorable global environment. In fact, emerging markets have been growing at rates close to 7% in recent years.

Democratic elections held throughout the region in 2006 led to new government cycles in 2007, that marked the continuation of development strategies when the incumbents were re-elected or the adoption of new policy agendas. In either case, both domestic and foreign investment resumed after elections.

The positive impact of the global economy on Latin American economies suggests that the expected slowdown in global growth will have a negative impact on the region's performance this year, through lower commodity prices and a drop in capital inflows. Nevertheless, in the next few years it is reasonable to still expect robust – albeit less vigorous – growth rates throughout the region.

International overview

In recent years, the global economy has been characterized by imbalances, i.e., large current account deficits in the United States and Great Britain that have so far been offset by surpluses in China, Japan, and the rest of Asia –accounting for 47% of the coverage- as well as by oil-producing countries, Russia and Germany.

As long as global market conditions do not change dramatically, there is reason to believe that this is a sustainable equilibrium. Among the factors in play here, there are demographic characteristics, such as the relative abundance of labor in emerging markets, and the aging population in developed countries; expectations of oil price stability, that will continue to enable savings surpluses in some countries; growing participation of institutional investors in capital markets; concentration of U.S. treasury bondholders coupled with a stable outlook for these players; and the United States reduced participation in global trade and growth.

In addition, the recent reduction of oil prices allowed U.S. consumers to keep up consumption, in the presence of a decline in the housing market.

However, a moderate correction of these imbalances is expected over the coming years, as well as a "soft landing" of the world's economy –in particular the United States. Yet this is not expected to significantly disrupt the existing global economic equilibrium. This scenario assumes that: i) the United States will be able to deal with the problems in the housing sector without major consequences; ii) the Federal Reserve Bank of the United States (FED) will not conduct a contractionary monetary policy; iii) markets that have been subject to speculation bubbles, such as emerging stock markets or commodity markets, will observe a moderate correction; and iv) lower growth rates in the United States will not translate into protectionism.

In this sense, the International Monetary Fund (IMF) Consultation Procedure has established a series of recommendations to contribute to an orderly market adjustment. These recommendations include: i) increasing domestic saving in the United States; ii) furthering structural reforms in Japan and the Euro Zone to boost growth and domestic demand; iii) greater exchange rate flexibility in surplus economies in emerging Asian countries; and iv) promoting an efficient absorption of oil revenues in exporting countries.

The "soft landing" scenario will have implications for emerging market economies and, in particular, for Latin American countries. On the one hand, a drop in global demand, will potentially diminish the region's current account. On the other, lower international liquidity, could result in a reduction of capital inflows and a reversal of the trend towards exchange rate appreciation. In this scenario, emerging markets can still expect solid economic expansions –albeit at lower rates than in recent years–, and also more sophisticated and discriminating international investors.

Although the United States' economy posted excellent growth over the last decade, the recent slump in the housing sector, with possible implications for global stability, has become a major concern for economic analysts. However, some argue that the United States, as well as the United Kingdom, will overcome the housing crisis without major consequences.

In addition, the FED's current assessment of the US economy poses more risks on inflation than on growth. Core inflation reached 2.9% in 2006, the highest level in ten years, setting the tone for a tightening of monetary policy. The scant response of consumption and credit to lower growth expectations could also add pressures for the FED to further increase interest rates. Should inflation ease and growth continues to be sub par in 2007 or 2008, a rapid reversal of part of the adjustment should be expected.

When examining the world economy, Asia cannot be overlooked. Asia was the main driver of global economic growth in 2006, and its domestic demand has been increasing (the IMF forecasts an 8% growth in consumption for the region in 2007) representing a great potential, given that the propensity to consume is 55% in Asia, versus 7% in the United States.

However, Japan's recovery is still in early stages and concerns about growth in China still remain –a country that accounts for almost half of the growth in Asia. The risks in China are related to inefficiencies of public institutions, large contingent liabilities, the administration of foreign exchange, on overheating economy, income inequality, and protectionism of its trading partners.

The yen has yet to show signs of revaluation in foreign exchange markets, despite an upbeat economic outlook and the current account surplus in Japan. A possible explanation lies in the practice of borrowing in this currency to speculate in other markets (carry trade), stimulated by persistently low interest rates. Another explanation is that the monetary surplus from oil-producers and Asian countries are invested in euros and U.S. dollars at large, resulting in lower capital flows to Japan. This would translate into a weak yen for a longer than expected period, and further increases in the current account surplus in that country.

Although growth has been modest in the Euro zone in recent years, the dynamic expansion of the Spanish economy and the resurgence of the German economy seem both promising. As Europe relies less on the United States as a trading partner, its resilience to overcome a reduction in US' economic activity increases. However, unified monetary administration involves certain risks, such as vulnerability to interest rate changes in the housing market in some European countries.

Spain, a member country of CAF, continued with the dynamic expansion of its economy, growing by 3.8% in 2006. This behavior was driven by increases of both exports and domestic demand during the year. Inflation decreased to 2.7%, from 3.7% in 2005.

The rally in equity markets led by the United States is expected to continue for some time. A reduction in profit margins will follow, however, if growth rates subside as expected. On the other hand, bonds, in particular long-term bonds, are expected to gain ground if: i) inflation rates remain close to central bank's targets; ii) excess world savings shrink; and iii) risks of global economic distortions diminish, although macroeconomic volatility is already at historic lows.

The current boom in commodity prices has been particularly interesting to investors, not only because it stems from changes in fundamentals –higher demand from China and India- but also because of the seemingly small correlation between commodity prices and economic cycles. The appeal of commodities has led, though, to a potential speculative boom –prices of goods traded for speculation markets are on average 60% higher– increasing the correlation between commodity prices and the rest of the economy. This has forced investors to reduce their exposure in these markets.

Global demand growth affected growth dynamics in Latin America.

In any case, this change in the demand for commodities is not expected to significantly disrupt the market, as it still mostly relies on fundamentals. Although there is no guarantee that growth in real demand for commodities will be positive, it is possible that goods necessary for accumulation such as gold, or production, –excluding steel currently exported by China–, continue to enjoy good market conditions.

Despite a 30% drop in oil prices over the last two months, risks of new hikes still remain, associated to the refining capacity of heavy crude oil, geopolitical instability in the Middle East and changes in property rights. However, the market has reacted with greater supply and lower demand of crude oil, driven by greater efficiency in the use of oil. These reductions in demand seem permanent, and will not be easily reversed by price reductions, making future increases in crude prices less likely.

Economic performance

During 2006, **Argentina**'s economic growth rate was slightly below recent trends. The economic expansion was mostly driven by domestic demand and exports. In addition, the public budget exhibited a surplus due to an increase in tax collection, even though primary expenditure escalated. In fact, the fiscal surplus exceeded 3% of GDP, which is a positive short-term signal. However, Argentina's pro-cyclical fiscal policy and regional finances represent important challenges. Inflation subsided very little to demand pressures, in response to price controls. The latter were based upon agreements with retailers, and were aimed to contain price hikes in commodities. Core inflation ended up above headline inflation.

In **Bolivia**, the economy showed signs of recovery, growing 4.9% in 2006, under favorable external conditions. Annualized inflation reached 5%, in line with the set target. External accounts were characterized by a current account surplus, larger than the financial account deficit, rendering record levels for international reserves accumulation (US$ 3,179 million). The fiscal stance improved as well. Hydrocarbon nationalization led to an increase in tax revenues that enabled a reduction of the fiscal deficit from an initial target of -3.4% in 2006, to a surplus of 5% of GDP.

In 2006, **Brazil** grew by 2.9%. Economic performance was driven by a strong increase in expenditure and exports. In addition, the trade balance had a surplus of 1.4% of GDP. Fiscal policy became more flexible, and the primary fiscal surplus of the public sector receded to 4.4% of GDP. The Central Bank of Brazil resorted to a conservative stance for monetary policy. Following an easing of inflationary pressures –year-end inflation was 3.1% while the official target was 4.5%–, the overnight interest rate (SELIC) fell five basis points throughout the period.

Economic growth in **Chile** was 4.2% during 2006, mainly driven by consumption and, to a lesser extent, by investment and exports, the latter favored by a boost in copper prices. This robust growth contributed to a reduction of the unemployment rate to 6%. In addition, the government ran a fiscal surplus close to 7.9% of GDP, considerably higher than the 4.8% surplus attained in 2005. This comfortable fiscal stance led to the announcement of an 8.9% increase in expenditure in 2007 by the Secretary of Finance. Likewise, these results contributed to reduce Chile's sovereign risk to nearly 80 basis points, similar to that of other emerging economies, such as China. However, important risks remain, associated with high oil prices, rising interest rates, downward trend of global economy growth, and uncertainty over natural gas supply.

Since 2003, **Colombia** has recorded a sustained increase in growth rates, paired with moderate inflation, and robust financial strength indicators. In 2005, the Colombian economy grew 5.1%. In 2006, it exceeded analyst expectations, registering a 6.8% growth. This expansion was driven

Low saving and investments, low competitiveness, high concentration of exports and a skewed income distribution, are resilient structural weaknesses in the region.

by higher consumption and investment levels. The Central Government fiscal deficit ran close to 5% of GDP, due to structural factors such as pension debt payments and regional transfers, among others. Regarding monetary policy, *Banco de la República* has been adjusting monetary policy, anticipating potential inflationary pressures in 2007.

During 2006, **Costa Rica**'s GDP grew by 8%, an expansion expected to continue in 2007. Growth was bolstered by advances in manufacturing, construction, transportation, agriculture and exports. The inflation rate was above the 6.8% target, reaching 9.4% at year-end, driven by increases in crude oil and refined products prices, and rises in transportation costs. The Central Bank of Costa Rica is studying the possibility of introducing a new monetary policy regime to allow, among other things, a more flexible currency regime which would decrease the depreciation of the Colón. The current account of the balance of payments registered a deficit close to 5.0% of GDP, due to a significant increase in imports of refined oil products and capital goods.

2006 was the seventh consecutive year of output growth in **Ecuador**. On the supply side, growth was determined by non-oil related activity, while the impulse on the demand side came from domestic consumption and public investment. The foreign accounts, displayed favorable results due to an upbeat export performance of crude oil, bananas, shrimp, and non-traditional products, reaching historical peaks in the trade balance. On the fiscal front, overall and primary results of the non-financial public sector registered a 4.8% and 5.6% surplus respectively, mainly driven by the increase in oil revenues. Inflation also remained stable at 2.1%.

Economic growth in **Mexico** was 4.1% in 2006. On the supply side, the manufacturing industry was one of the main drivers of growth, while on the demand side; domestic consumption offset the fall in exports that resulted from lower growth of the United States. Fiscal policy in Mexico has been consistent with monetary policy goals and macro-economic stability, but the new government faces various challenges related to structural problems in the fiscal accounts. The interest rate policy maintained its stance, allowing the central bank to attain inflation and nominal exchange rate targets.

GDP growth rate in **Panama** was 7.5% in 2006, above 2005 levels. The strong external demand for the Channel's transportation and navigation services, as well as the expansion of domestic demand were the main drivers of growth. By economic sectors, construction showed the greatest dynamism, followed by retail, transportation, warehouse and telecommunications. The unemployment rate, in turn, decreased from 12.1% in 2005 to 10.4% in 2006. In addition, year-end inflation rate was 2.5%, driven by increases in food and fuel prices. The current account deficit reached 4.2% of GDP, due to high oil prices in international markets.

Paraguay exhibited a 4% growth rate in 2006, mainly driven by an increase in livestock production (8.5%), services (4.9%) and manufacturing (4.7%). The foreign accounts displayed a rise in the trade deficit, due primarily to an increase in imports. Inflation closed at 12.5%, driven by price increases in the food sector, particularly fruits and vegetables.

In **Peru**, economic growth GDP grew 8% in 2006, the same rate observed in 2005, as almost all productive sectors expanded. On the demand side, investments rose, supported by consumer confidence. Traditional exports continued to grow at high rates, as terms of trade reached their highest level in twenty years. The non-financial public sector surplus was 2.1% of GDP, the second highest surplus since 1970. The Government cut certain expenses yet announced a gradual increase in capital outlays. Likewise, it proposed sanctions for non-compliance with the fiscal rule, and furthered the liability management agenda, improving the likelihood of an upgrade in Peru's debt ratings, among other things.

During 2006, the economy of **Uruguay** grew 7.3%, mostly driven by exports, but also by developments in investment and consumption. Among institutional sectors, manufacturing led

Main indicators 2006*

	Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica
Real sector						
GDP (current million US$)	218,556	10,582	966,827	106,939	134,291	22,486
GDP per capita (current US$)	5,608.2	1,098.9	5,176.6	6,683.7	2,871.2	5,110.4
Real GDP Growth (%)	8.5	4.6	2.9	4.2	6.8	8.0
Investment (% of GDP)	19.6	12.7	18.5	29.0	27.8	n.a.
Unemployment rate (% of total labor force)	10.40	7.64	10.00	6.00	11.78	6.00
Population (millions)	39.0	9.6	188.3	16.0	46.8	4.4
External sector						
Exports FOB (millions US$)	47,040	3,863	137,470	58,996	24	8,445
Imports FOB (millions US$)	32,937	2,640	91,396	35,974	26	10,600
Current account (% of GDP)	4.0	12.5	1.4	4.5	-3.1	-5.0
Foreign direct investment (% of GDP)	0.4	2.2	n.a.	5.3	2.9	0.1
Total external debt (% of GDP)	59.1	30.6	18.2	7.8	29.5	32.6
Net international reserves (millions US$)	32,037	3,179	85,839	19,429	15,126	2,780
Fiscal sector and prices						
Fiscal balance NFPS (% of GDP) a/	1.0	5.2	-4.0	7.9	-0.6	-2.4
Inflation rate (end of period)	9.8	5.0	3.1	2.5	4.5	9.4
Nominal exchange rate (end-period)	3.07	8.03	2.14	527.58	2,238.79	517.25
Annual depreciation (%, end-period)	1.3	-0.6	-8.6	2.6	-2.0	4.1
Real effective exchange rate index (1997=100)	209.2	135.2	130.8	115.3	110.2	103.2
Banking sector and capital markets						
Nominal portfolio growth (%)	39.6	7.7	n.a.	15.4	2.6	n.a.
Non-performing loans (% of total loans)	n.a.	9.6	n.a.	0.8	34.0	n.a.
Sovereign bonds spread EMBI+ (basis pts.) b/	315	n.a.	231	80	161	n.a.
Equity index in US$ (1997=100) c/	301.9	n.a.	558.4	182.5	460.5	398.7
Social indicators*						
Poverty (% of population) d/	28.8	62.0	37.5	18.8	49.2	21.1
Illiteracy rate e/	2.8	4.2	11.6	4.0	92.8	4.2
School enrollment, basic (% net) f/	100.0	94.2	96.6	99.0	83.2	90.0
Infant mortality rate g/	15.0	55.6	27.3	10.3	22.0	10.5
Life expectancy at birth (years) h/	74.3	66.0	71.0	75.8	73.2	78.1

* PRELIMINARY DATA
a/ Non Financial Public Sector. For Brazil, Dominican Republic and Uruguay Central Government.
b/ For Argentina data represent Credit to the Private Sector only. Dominican Republic Data for 2004
c/ Year average. For Chile, Dominican Republic and Uruguay the number presented is EMBI Global.
d/ Data for Uruguay is May 2003=100.
e/ Brazil, Jamaica, Mexico, Panama, Dominican Republic, Trinidad & Tobago and Uruguay data for 2002; Chile data for 2003; Bolivia, Paraguay, Peru and Venezuela data for 2004. Data for Argentina, Costa Rica and Venezuela percentage of household in poverty.
f/ Percentage of people ages 15 and above. Data for 2003, except for Paraguay (2004) and Uruguay (2002).
g/ The net enrollment ratio is the ratio of enrolled children at the official age for the education level indicated to the total population of that age. Data for 2003.
h/ Dead children younger than a year, per 1000 live births. Average 2000-2005.
i/ Average 2000-2005.
n.a.: not available.

Ecuador	Jamaica	Mexico	Panama	Paraguay	Peru	Dominican Republic	Trinidad & Tobago	Uruguay	Venezuela
40,892	10,300	852,324	16,855	9,784	93,330	37,520	16,252	16,878	176,463
3,050.0	3,814.8	7,438.0	5,107.6	1,553.0	3,428.9	4,168.9	12,625.0	5,092.2	6,480.0
4.3	2.7	4.1	8.1	4.0	8.0	10.7	16.1	7.3	10.3
27.5	n.a.	19.8	26.8	17.3	22.1	14.8	n.a.	12.2	22.7
9.60	11.20	3.00	10.40	n.d.	8.54	16.00	7.00	11.60	9.90
13.4	2.7	119.1	3.3	6.3	27.2	9.0	1.3	3.3	27.2
12,281	2,115	232,600	8,578	1,778	23,750	6,392	13,225	3,952	64,568
10,330	4,808	242,700	10,154	4,834	14,897	10,864	7,647	4,524	31,344
3.3	-10.8	0.0	-4.2	-3.4	2.6	-2.1	32.5	-2.1	15.5
3.1	n.a.	1.4	14.8	0.9	3.7	2.4	n.a.	7.1	1.5
44.1	71.8	7.4	47.0	24.7	30.4	18.7	17.4	67.9	23.5
2,820	2,150	67,691	1,236	1,670	17,275	1,788	6,856	3,091	36,606
4.8	n.a.	0.0	-2.9	0.8	2.1	-1.0	6.6	-1.8	0.1
2.1	5.8	3.4	2.5	12.5	1.1	5.0	10.7	6.4	17.0
25,000.00	67.03	11.00	1.00	5,170.00	3.20	33.28	6.22	24.45	2,150.00
0.0	4.0	3.5	0.0	-15.2	-6.8	-3.4	-1.0	1.2	0.0
105.7	102.3	92.5	107.9	114.6	116.0	94.7	80.0	147.0	100.9
9.7	n.a.	14.9	n.a.	n.a.	6.2	12.5	n.a.	n.a.	63.5
4.2	n.a.	2.1	n.a.	5.3	1.6	n.a.	n.a.	5.4	1.3
848	n.a.	119	188	n.a.	131	259	n.a.	243	212
75.5	294.9	1,125.3	n.a.	n.a.	576.3	n.a.	500.7	n.a.	24.3
39.0	18.2	26.3	34.0	39.2	51.6	44.9	21.0	15.4	33.9
9.0	12.4	9.7	8.1	6.4	12.3	12.3	1.5	2.3	5.0
88.6	94.5	90.3	100.0	89.0	100.0	96.0	91.0	90.0	n.a.
18.3	19.9	23.0	20.6	37.0	33.4	34.4	14.1	13.1	0.6
74.0	75.7	75.1	74.7	70.8	69.8	70.1	71.3	75.2	73.4

Source: Central Banks, Official Sources, ECLAC, World Bank and UNDP.

To achieve quality growth, the region should maintain a balance between macro-economic stability, productivity growth, and social inclusion.

growth. Year-end inflation rate was 6.4%, which is still within the target range of 5-7%, set in the government's monetary program. Unemployment dropped to 11.6% in 2006, from 12.2% in 2005. The fiscal deficit of the public sector shrunk to 1.8% of GDP, stemming from an increase in tax collection and stable Central Government expenditure. Regarding foreign accounts, the balance of payments' current account registered a deficit of 2.1% of GDP.

Venezuela continued posting high growth rates in 2006. Preliminary data from the Venezuelan Central Bank (BCV) reveals GDP growth rate hit 10.3%, mainly led by the impulse of public expenditure and private consumption. Oil exports increased 16.2% as a result of prevailing high oil prices. This was enough to offset the rise in imports, so that the trade balance hiked to US$ 27,374 million (16.2% of GDP) during the year. Booming oil prices also allowed a significant fiscal expansion. Overall increases in liquidity, public expenditure and domestic aggregate demand, continued to exert pressure on prices and led to a 17% year-end inflation rate.

Moving on to CAF's shareholders in the Caribbean, **Trinidad & Tobago** continued registering solid growth rates in 2006. In fact, GDP exhibited an impressive 16.1% growth, driven by fuel exports and construction. In this context, the unemployment rate remained stable at 7%. The inflation rate reached 10.7%, with food recording the largest increase. Solid growth is expected to extend to 2007, accompanied by prudent monetary and fiscal management.

In **Jamaica** GDP growth was 2.7% in 2006, supported by macroeconomic stability and growth in all productive sectors, except for manufacturing. The inflation rate decreased with respect to the previous year to 5.8%, thanks to currency stability, monetary aggregates staying under control and moderate movements in the prices of agricultural products.

Dominican Republic also grew rapidly in 2006, registering 10.7% year-end GDP growth. This expansion was the result of strong growth dynamics in construction, communications and agricultural activities. Oil-price increases were offset by declining food prices, so the annual inflation rate fell to 5%, a significantly lower rate than the one registered in 2005.

External sector

Stimulated by international liquidity and the demand for commodities, economic growth has attracted inflows of capital to the region, that has further boosted growth and exchange rate appreciation. Some countries have taken advantage of this situation to improve their debt profiles and obtain greater coverage of international reserves with respect to their short-term liabilities.

Furthermore, contrary to previous occasions, the behavior of commodities has allowed revaluation to occur in the absence of significant current account deficits. In fact, the current account of the balance of payments ran surpluses in most countries, even reaching historical highs in some cases. The external position has also improved due to the steady rise of remittances to some countries.

In the years ahead, a moderate reduction in the trade balance is to be expected, in line with increasing imports and weaker export growth. The latter would stem from a slowdown in terms of trade improvements and in world demand growth.

Monetary, exchange and financial sectors

Amid the economic boom in the region, price dynamics were particularly smooth. In general, countries were able to reduce inflation rates, despite demand strains. This has been the result, not only of higher central bank credibility, but also of excess capacity utilization and well behaved tradable prices, in the presence of appreciated exchange rates and lower international prices. Inflation in the Andean region has followed a similar pattern to that in Latin America, although with rates slightly above the regional average.

The atmosphere of stability and growth has also enabled the consolidation of financial activities, with declining interest rates, greater financial intermediation, reduction in non-performing loans, and higher capitalization and profits. However, countries must be aware that excessive credit growth has already caused problems in the past.

Public Finance and debt service

The fiscal stance has improved throughout Latin America, as reduced deficits and lower public debt levels demonstrate. Debt renegotiation efforts had a positive effect, that extends not only to the reduction of exchange rate risk and fiscal pressure, but also to the development of domestic capital markets. Likewise, the ability to collect tax revenues has also improved.

However, it is not clear that fiscal savings have been counter-cyclical enough. Despite economic growth, public accounts are still the weak link in some countries. Significant budget rigidities, social pressure for larger expenditure, and substantial contingent liabilities still persist. The fiscal stance appears sustainable in most countries, given that primary public savings enable debt servicing and holding a constant debt-GDP ratio. It is important to underline that for some countries, sustainability is very sensitive to changes in key variables, such as interest rates or commodity prices.

Poverty and social indicators

Despite the growth rates registered in Latin America, improvements in social conditions have been insufficient and important structural weaknesses still remain.

Despite the buoyant economic performance of recent years, the progress in social indicators has been modest compared to the advances attained in countries like China or India, in terms of absolute poverty eradication.

Although per capita income levels in Latin America have improved, poverty and unemployment have decreased and human development indices are at higher levels than in recent years, the welfare of the majority of Latin America's population is far from satisfactory. In particular, the region exhibits the largest income inequality in the world, and the gap between urban and rural areas has widened, as has that within urban areas.

Another critical issue is the unemployment rate, which has reached levels well above other regions of the world, such as Central Europe and East Asia. The matter is particularly worrisome in countries such as Colombia and Venezuela where average unemployment rates remains quite high despite high economic growth.

Even though some countries have made significant progress towards compliance with the Millennium Development Goals regarding basic services, education and health coverage, poverty reduction objectives appear distant if current and future levels of economic growth are taken into account.

For these reasons, social initiatives must be given top priority in public policy agendas in Latin American countries. However, focus should be placed not only on achieving greater levels of public expenditure –where improvements have in fact been made–, but also on better targeting, quality, adequacy, and social expenditure administration, so that resources devoted to the most impoverished sectors translate into significant improvements in social indicators.

Competitiveness

The current situation hides the existence of structural microeconomic problems that affect the business environment, labor markets and the functioning of institutions. In addition, important infrastructure investments are needed. These factors have had adverse consequences on the region's growth, particularly on productivity and the development of new export activities. According to the most recent Global Competitiveness Report published by the World Economic Forum, various Latin American countries registered a setback in their relative position in the international ranking on competitiveness for growth.

The current favorable situation represents an excellent opportunity to undertake this agenda of pending reforms, especially in countries that have chosen to increase their participation in international trade. However, it is critical to establish priorities that enable the implementation of the most beneficial projects and reforms related to growth, without affecting economic stability, essential to the development of long-term competitiveness.

Institutions and governance

During 2006, Latin America experienced significant economic growth, with a positive impact on main economic and social variables, within a context of political uncertainty and changes in some of the region's governments. However, despite economic buoyantly economy, institutional weakness in some countries is evident. In fact, pressure from all social sectors continued throughout the region, a definite sign of dissatisfaction.

Although levels of confidence in public institutions are low, they are improving. In fact, according to the most recent *Latinobarometro* survey, almost 50% of the people surveyed said they trusted their president, in contrast with the result obtained in 2001, when only a fifth of the people surveyed answered affirmatively. In addition, 35% had trust in the Judiciary Power (19.5% in 2001) and 28% in Congress (18.0% in 2001). This indicates that, although confidence levels towards public institutions are still far from being satisfactory, the trend towards an improvement is a positive signal.

The region faces important challenges in 2007. The implementation of new reforms, both social and economic, will be key in promoting an atmosphere of consensus among all actors in society. Likewise, the promotion of democracy will be the crucial for overall stability.

Regional integration

2006 was a year full of developments in Latin America with respect to both regional integration and greater participation in the global economy. In an ever changing world scenario, Latin American's strategy for increased participation in the world economy has advanced along three main routes: international multilateral negotiations, regional integration, and trade agreements with countries outside the region. Together, these routes constitute complementary strategies.

Faced with the freezing of the Free Trade Area of the Americas (FTAA) and the delays in multilateral negotiations of recent years, many countries in the region have turned to Free Trade Agreements (FTA) with the United States as an essential part of their strategy to increase market access. In fact, FTA negotiations with Colombia, Panama and Peru concluded in 2006. However, results from recent elections in the United States introduce a greater degree of uncertainty in the ratification of agreements. It is unlikely that the realignment of forces in the United States' Congress will extend President George Bush the special Trade Promotion Authority mandate–which expires in July 2007– whereby it approves or rejects trade agreements as a whole.

CAF is playing an increasingly active role in promoting integration in Latin America.

Given the uncertainty of the FTAs, the extension of the Andean Trade Promotion and Drug Eradication Act (ATPDEA) preferences, that expired on December 31st, 2006, has become a priority for beneficiary countries. The United States' Congress has approved a six-month extension, with the possibility of a further six month extension only for those countries currently negotiating a trade agreement with the United States –at present, Colombia and Peru. Therefore, Ecuador and Bolivia must pursue negotiations with the United States if they are to continue benefiting from tariff preferences within ATPDEA's framework.

The suspension of the Doha Development Round multilateral negotiations in July 2006, represents one of the most significant setbacks within the global trade liberalization scenario. The suspension was mainly driven by the lack of agreement among parties regarding market access and domestic aid for agricultural products, in particular between the United States and the European Union (EU). At present, attempts to resume negotiations are limited to private discussions among governments. In 2007, hopes are set for a political commitment to resume negotiations, given their importance to developing countries, especially to those in Latin America. However, political conditions in the United States will also affect multilateral negotiations, since the absence of Trade Promotion Authority might hinder the ratification of any agreement.

Regarding regional integration in 2006, Venezuela decided to leave the Andean Community (CAN) and the Group of Three (G3), and enter Mercosur as a full member. This signaled a change in its international strategy, and at the same time it has been pursuing its own vision of integration through the Bolivarian Alternative of the Americas (ALBA). In turn, Chile entered the CAN as an associate member, also indicating a change in its regional integration strategy. Despite Venezuela's decision, CAN continues to be committed to a stronger regional integration. In fact, on January 1st, 2006, the Andean Free Trade Zone began operations with the full incorporation of Peru, while Venezuela maintains reciprocal trade preferences for at least a five-year period.

The South American Community of Nations is the most ambitious challenge of Latin American integration. It was created on December 8th, 2004, in Cusco, Peru to establish a social, cultural, economic, financial, environmental and infrastructure integration bloc of the twelve South American nations: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Surinam, Uruguay, and Venezuela. In the recent Cochabamba Summit, held in December 2006, the goal of a regional union was reaffirmed, advancing with common public policies while respecting the time limits and sovereignty of each nation.

In addition to strengthening relations with the United States, the countries of the region are committed to the development of stronger bonds with the rest of their trade partners. The EU represents not only an important partner, but also an ally for regional integration in Latin America. In fact, Chile and Mexico already have Association Agreements with the EU. The agreement between the EU and Mercosur, originally expected in 2006, is at a standstill due to the lack of consensus regarding investments, agricultural products and services. However, it is unlikely that an agreement be reached until the fate of the Doha Development Round is decided. The EU continues to be interested in agreements with the CAN and Central America, and has decided to launch negotiations in 2007. The Association Agreements proposed will be global in nature and will govern all relations among the EU and these two regions, including not only trade but also on matters of political dialogue and cooperation.

Understanding the importance of finding alternative export markets, the countries of the region have decided to pursue agreements with Asian and other developing countries. This is reflected in the trade agreement between Chile and China, the first between this Asian nation and a Latin American country, which came into force in 2006. Likewise, Chile concluded negotiations pursuant to an agreement with Japan, to come into force in 2007. Also in 2006, Panama and Singapore signed an FTA, while the agreement between Guatemala and Taiwan came into force.

Report of Economy and Development 2006

The third issue of the Report of Economy and Development (RED) entitled "Latin America's road to productive transformation" was published by CAF in 2006. This edition written by the CAF's research team, with –participation of renowned regional scholars,– seeks to promote a debate on how to achieve sustainable and quality growth in Latin America that translates into benefits for all of its citizens.

The development gap between Latin America has been associated, among other things, with a low quality participation in global markets, which is characterized by a high concentration of exports and low productivity, hindering competitiveness of the region's exports.

Certain post-war development experiences demonstrate that, as a result of pursuing policies that led to a productive transformation, countries were able to attain sustained economic growth and a successful participation in global markets, which ultimately led to quality employment and poverty reduction.

In light of these experiences, the question that naturally follows is how can Latin American countries undertake the path towards this productive transformation. To move in this direction, the region needs to achieve greater diversification and increase productivity.

The book recommends policy strategies to promote new export activities, develop and strengthen clusters, and attract quality foreign direct investment. First, it stresses the importance of promoting clusters to take advantage of the significant productivity gains from collective action, productive linkages and innovation processes they entail. In this case, public intervention is mainly directed to solve coordination failures, especially if one considers that firm and industry agglomeration need not spontaneously result in larger productivity.

Second, given the degree of development of the region, the discovery of new export activities is key to ensure that countries advance in diversification, and also develop new ways to add value to production.

However, considering the potential obstacles associated to the discovery of new activities –uncertainty about the profitability of a new export activity, limited domestic ability to support new ventures, uncertainty about the ability of the entrepreneur to claim the returns of this investment– public intervention is justified. Additionally, the book argues that improvements in productivity across the board can generate by themselves, greater diversification.

Third, based on successful productive transformation experiences, the book recommends promoting quality Foreign Direct Investment (FDI), that is, attracting investment with potential spillover effects that can contribute to the process of productive diversification. Thus, the strategy of FDI promotion should focus on quality, based on enhanced criteria of productivity increases and export diversification, rather than adopting an approach solely based on quantity.

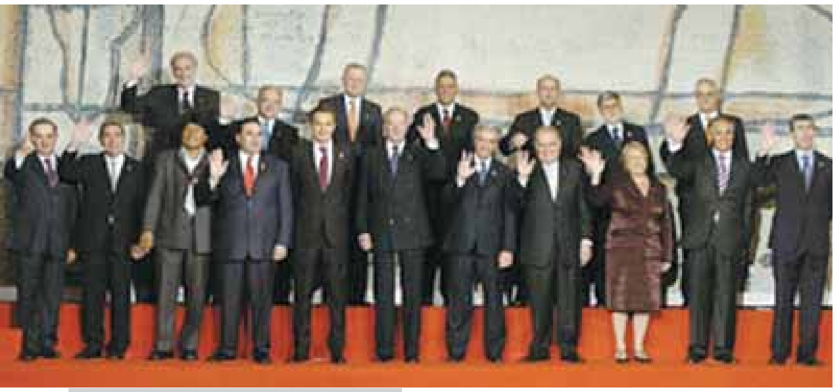
Likewise, the importance of accompanying these strategies with horizontal policies that cover institutional requirements is addressed –with particular attention to the design of institutions and regulations that minimize potential government failures– and that build local capacities –especially in the areas of innovation and education– demanded by productive transformation.

With this publication, CAF seeks to stimulate the debate and guide the implementation of public policies to achieve both greater diversification and productivity gains, as means to achieve sustainable growth

CAF's commitment to regional integration

Committed to a stronger regional integration, CAF continues playing an important role in the integration agendas of each of its 17 shareholder countries, supporting the objectives set through multiple subregional, regional and hemispheric forums currently in progress. Through a permanent presence, CAF promotes the consolidation of a renewed and convergent regional integration, within an integrated framework that enables its participation in decision-making processes, as well as a fair inclusion of its scope and benefits.

The presence of the Institution's Executive President, Enrique García, in the main regional forums, has driven CAF's active participation in priority issues included in the agendas of each of the integration and agreement initiatives. During 2006, the Institution promoted a series of actions to support the objectives of its shareholder countries related to the integration of physical infrastructure and energy markets, stronger agreements for capital markets and commercial integration, and promotion of social and cultural development programs as drivers of citizenship and community integration. CAF was present at: the Joint Work Group for the Summit of the Americas and at the frame of the United Nations' General Assembly in Santo Domingo, Dominican Republic; the meetings of the Andean Community countries; the Mercosur's Chiefs of State Summit in Cordoba, Argentina and Rio de Janeiro, Brazil; the Ibero-American Summit in Montevideo, Uruguay; the meeting of the Group of Reflection of External Affairs Secretaries in Santiago, Chile; the Second Summit of Chiefs of State of the South American Community of Nations; and the Social Summit celebrated in Cochabamba, Bolivia.



CAF increased and strengthened joint and cooperation work programs with various organizations and regional integration secretariats, supporting the objectives from an integrated and multidimensional perspective. It is worth mentioning the institution's participation in the implementation of specific projects with the Organization of American States (OAS), the Andean Community General Secretariat, the Health Andean Organization Hipólito Uname, Mercosur's Permanent Representatives Commission, the Latin American Integration Association (ALADI), the Organization of the Amazonic Cooperation Treaty, and the Caribbean States Association. In addition, CAF offered permanent support to the programs contained in the agenda of the Puebla-Panamá Plan.

From top to bottom:
During the third quarter of 2006, CAF's Executive President, Enrique García, received the Governor of the China Development Bank, Chen Yuan. Governor Yuan showed great interest for CAF and its mission with sustainable development and regional integration of the Latin American region.

Chiefs of State and authorities of the 12 countries of the region participated in the Second South American Nations Summit, on December 8th and 9th in Cochabamba, Bolivia, where the strategic plan for the integration of South American was adopted.

The XVI Ibero-American Summit was installed on December 4th and 5th, 2006, in Montevideo, Uruguay. The Summit gathered Chiefs of State and government of the 22 States of the Ibero-American Community of Nations, in a dialogue about migration and development from the bi-regional integration viewpoint.

CAF and environmental management: commitment and action

THE COUNTRIES OF THE REGION share a number of important characteristics in relation to the conservation and sustainable management of natural resources. This enables them, together with CAF, to make joint proposals and carry out joint actions. Natural resources underpin their economies, since approximately 20% of the region's GDP depends on their exploitation. This in turn generates significant pressure upon them. It should also be borne in mind that the structure and function of ecosystems throughout the planet changed more rapidly during the second half of the XX century than at any time in human history, and that the region has been affected as much as any[1].

Latin America is exceptionally rich in biodiversity, both in terms of species and genetic variety and in terms of ecosystems. Several of CAF shareholder nations have been recognized worldwide as 'mega-diverse', a term coined to define those territories that possess exceptional biodiversity. The loss of this rich biological heritage is one of the main environmental problems facing the region.

Latin America is also considered rich in water resources: with just 15% of the territory and 8.4% of the population of the world, it receives 29% of the precipitation and possesses a third of the renewable water resources. Nonetheless, the availability and quality of water is not evenly distributed. The main problems are growing scarcity, deterioration in water quality due to the use of pesticides, mining waste, industrial use and untreated domestic waste-water. The alteration of aquatic ecosystems has led to 20% of the 10,000 species of freshwater fish being declared in danger of extinction in recent decades[2].

Moreover, Latin America and the Caribbean constitute the most urbanized region of the developing world, with approximately three-quarters of their population living in cities. Industry too is concentrated in urban areas, resulting in high levels of energy, water and food consumption. The most pressing problems in these large urban conglomerations are those associated with transport, untreated solid and liquid waste and atmospheric contamination, including the contribution of the latter to the destruction of the ozone layer and to climate change. It is estimated that a fifth of the population of the great metropolitan centres is exposed to pollutants which exceed recommended levels, and this problem is spreading to small and medium-sized cities.

The devastation caused by natural disasters is well-known. In the period 1970-2001, they left 246,569 people dead and 144.9 million homeless or otherwise affected, causing damage calculated at US$ 68.6 billion. "El Niño" is an atmospheric/oceanic phenomenon, particularly intense in the eastern Pacific, which seriously affects the coasts of Ecuador and Peru. The damage occasioned by El Niño in the 1997-98 period in Bolivia, Colombia, Ecuador, Peru and Venezuela totalled US$ 7,545 billion. Ecuador was the country most affected, with losses equivalent to 14% of its GDP[3].

Aside from the destruction, degradation and impoverishment of ecosystems and natural resources, Latin America faces many environmental problems which significantly affect the health and well-being of its inhabitants, as well as its economic development. The countries of the region have made important, though as yet insufficient, attempts to ameliorate these tendencies and counteract their effects. CAF supports them in these ever more necessary efforts, in critical areas such as the improvement of environmental investment and the strengthening of environmental institutions and of environmental management in other bodies, as well as in developing greater coordination among them. It supports shareholder nations in optimizing their territorial planning schemes, improving environmental

1. Millennium Ecosystem Assessment (2005).
2. Earth Trends. The Environmental Information Portal (2007).
3. GEO Andino 2003. Perspectivas del Medio Ambiente PNUMA-CAN.

For 35 years, CAF has allocated resources to promote environmental initiatives, significantly contributing to the sustainability and social responsibility of the operations financed.

policy and regulation, supporting decentralization and promoting greater awareness and participation in decision-making on the part of civil society.

In this fashion, CAF has developed an important environmental commitment, within the framework of its mission to achieve sustainable development and regional integration, and in support of member countries, in generating specific strategies and in establishing programs and initiatives through innovative financing schemes that contribute to increasing environmental investment. Thus, CAF has contributed by supporting conservation and the sustainable use of biodiversity, and in general, to the sustainable management and conservation of the environmental services that ecosystems provide, to the amelioration of climate change and problems of air quality, the reduction of industrial and urban contamination, the prevention and mitigation of natural disasters, improvements in the availability of the geographical and environmental information needed for decision-making, and in processes of decentralization and strengthening of civil society and public and private institutions.

In 1994, CAF created the Office for the Coordination of Sustainable Development, charged with evaluating and monitoring approved operations. In 2000, this became the Sustainable Development Directorate, answerable to the Vice-presidency of Development Strategy. In 2004, its decision-making capacity was strengthened with the creation of the Vice-presidency for Social and Environmental Development. This involved, on the one hand, the recognition of the environmental dimension as integral to the economic and social development of the region, and on the other, a greater degree of specialization in this subject within CAF, as a result of in-house technical, scientific and methodological developments.

The environmental strategy of CAF: responsible management

CAF has developed in the course of its history a clear environmental strategy aimed at achieving two main objectives: i) to create and constantly improve the framework and processes which guarantee that its environmental and social operations will be responsible, and ii) to support shareholder countries in the conservation and sustainable use both of their natural resources and their ecosystems (*Figure N° 1*).

To achieve the first objective, CAF has drawn up an Environmental Management Plan, which promotes corporate environmental responsibility in its administrative activities and in the Organization's headquarters and representative offices in shareholder countries. CAF has also designed and implemented a Social and Environmental Operations System which brings together all the policies, methodologies, proceedings, instruments and resources related to the environment which facilitate decision-making in each of the phases of its credit-approval process and operations. The aim of this system is to guarantee physical and environmental sustainability, as well as the social responsibility of the operations financed by the Institution. It ensures the complete integration of all technical, human and financial resources within each of the phases of the credit process, enabling environmental and social considerations to be adequately taken into account throughout all the Institution's activities (*Figure N° 2*).

In relation to the second objective of its environmental strategy, CAF has designed and carried out a series of specialized environmental programs which promote and support national and regional initiatives aimed at environmental conservation and the sustainable use of the region's natural capital, as well as at strengthening the environmental sector in each of its shareholder nations. These include the Biodiversity Program, the Latin American Carbon and Clean and Alternative Energies Program (*PLAC^{+e}*), the Natural Disaster Risk Management and Prevention Program, the

Figure Nº 1

CAF’s environmental strategy

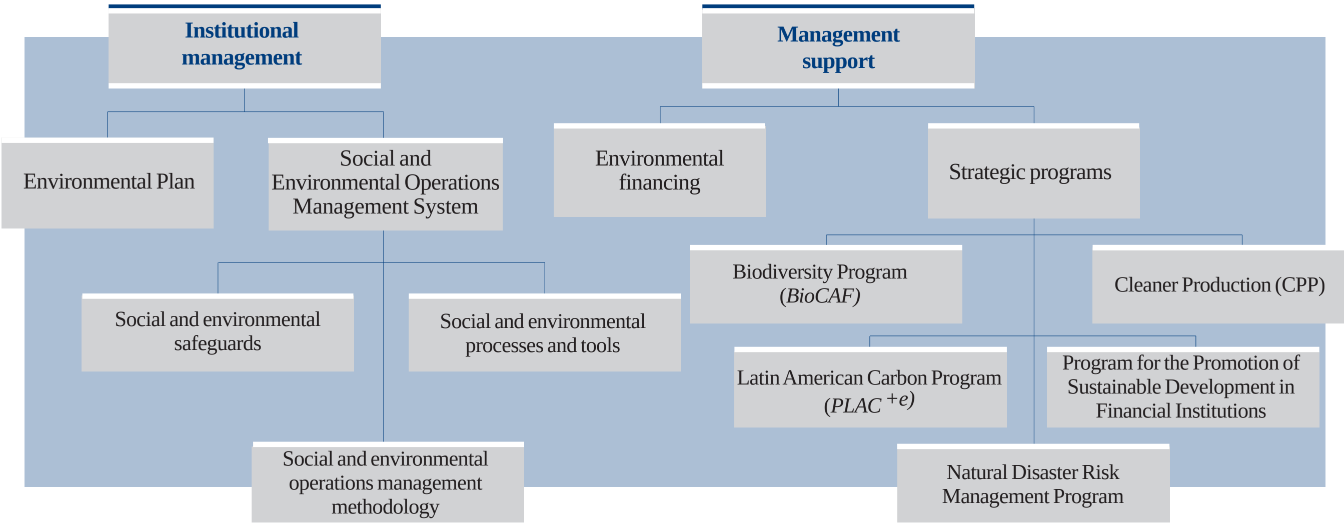
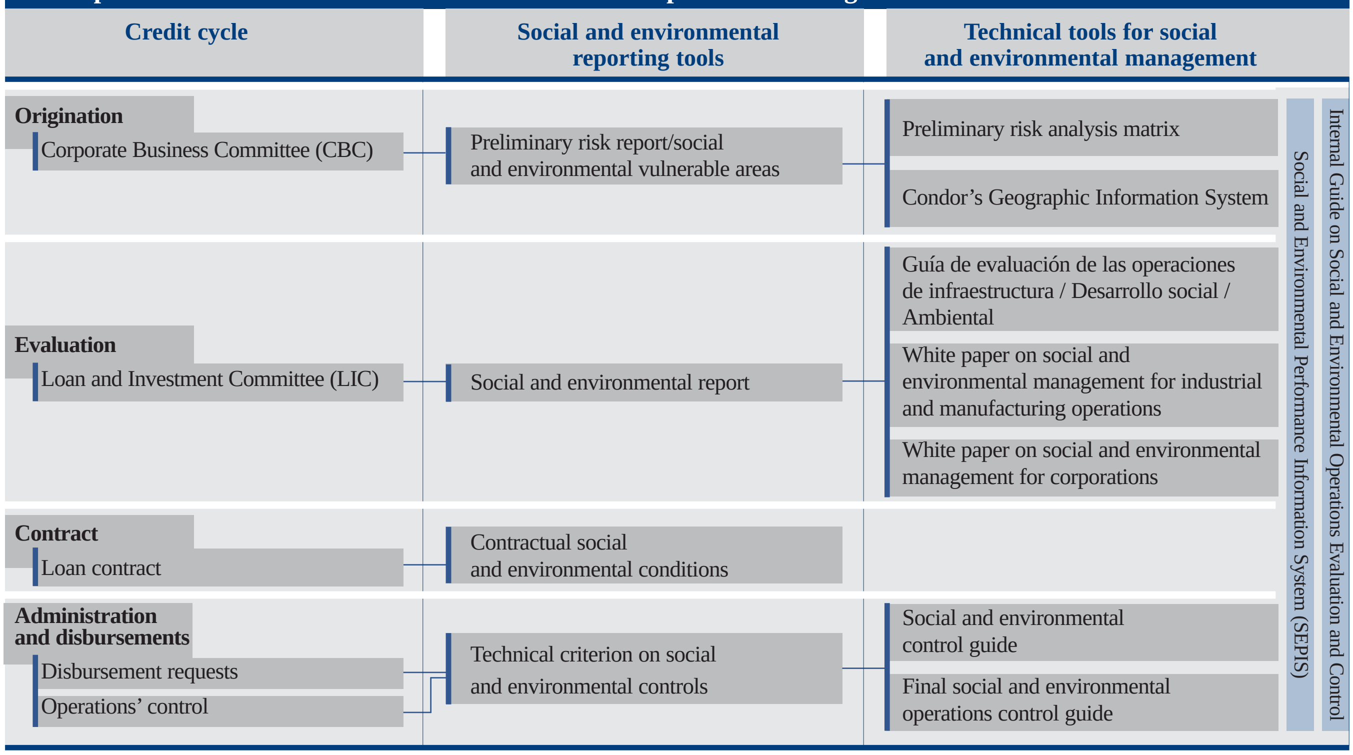


Figure Nº 2

CAF’s processes and tools for social and environmental operations management



Cleaner Production Program (CPP), the Sustainable Development in Financial Institutions Program, and other activities specifically related to the management and conservation of water and the preservation of the environmental services of ecosystems. In addition, CAF has contributed to the strengthening of this sector in shareholder countries through environmental investment in their operations (*Table N° 1*), environmental sector credits (*Table N° 2*) and technical assistance to a number of environmental initiatives. It has also developed information-technology tools, such as the Condor Geographical Information System, which contribute to the understanding of the region and to adequate decision-making in areas which affect environmental sustainability.

Credits granted by CAF to the Social and Environmental Management of the Indirect Impact of the Southern Inter-oceanic Transport Corridor

During the evaluation of the credit requested by the Republic of Peru in relation to the Southern Inter-oceanic Transport Corridor, it became apparent that investment was needed to prevent and mitigate the scheme's environmental and social impact beyond the immediate area in which construction would take place. With this in mind, the Program for the Environmental and Social Management of the Indirect Impact of the Southern Inter-oceanic Transport Corridor was established, in parallel to the credit process itself.

One of the most outstanding features of this road scheme is that it joins together major environmental and cultural regions, possessing diverse social and economic characteristics and requiring an integrated vision of sustainable development.

The objective of the program is to contribute to the strengthening of the planning, titling, promotion, execution, supervision, oversight and control capacities of the national and regional public-sector bodies responsible for preventing and mitigating the indirect social and environmental impact resulting from the construction and operation of the new road system.

The program is based on the pre-feasibility study presented by the National Institute of Natural Resources (Inrena) and approved by the Peruvian parliament's oversight bodies responsible for public investment projects. It consists of four component parts and ten projects:

Territory Organization and Preservation of Natural Areas

- Project 1: Territorial distribution plan for the entire impact area.
- Project 2: Improvement of protected natural areas management and creation of new protected areas.
- Project 3: Creation of a tourist development plan for the impact area.
- Project 4: Improvement of environmental management in the gold industry in the impact area.in the Mining Production within the Area of Influence
- Project 5: Land survey, titling and land registration in 28 neighbouring districts.

Sustainable forest management

- Project 6: Consolidation and development of forestry concessions and strengthening of the capacity of the relevant authorities in the administration and supervision of forests and wildlife.
- Project 7: Strengthening of the Brazil-nut industry in *Madre de Dios* department.

Institutions and participation

- Project 8: Cultural identity and land rights for indigenous peoples.
- Project 9: Strengthening of the environmental and social management capacities of the regional and local governments and of participation by civil society in the impact area.

Institutions and participation

Project 10: Implementation and supervision of the program.

The total cost of the program is US$17.8 million, of which US$10 million is financed by CAF.

Table Nº 1

CAF's investments environment-related initiative. 2006

	(US$)		
	Total	CAF	Counterpart
Country			
Argentina	162,728,799	61,120,577	101,608,222
Bolivia	9,750,195	6,028,735	3,721,460
Brazil	59,279,193	19,445,274	39,833,919
Colombia	10,208,000	6,000,000	4,208,000
Ecuador	8,992,511	8,862,511	130,000
Paraguay	1,399,778	588,300	811,478
Peru	729,923	386,923	343,000
Venezuela	650,400	0	650,400
Total	**253,738,799**	**102,432,320**	**151,306,479**

Table Nº 2

Loans to the environmental sector. 2006

	Country	Amount (US$)
Emergency Attention Program	Bolivia	15,000,000
Program of Environmental Management of the Southern Inter-Oceanic Corridor	Peru	10,000,000
Environmental Management Program	Venezuela	25,000,000
Portfolio Value		**50,000,000**

Biodiversity Program *(BioCAF)*: the conservation and sustainable use of biodiversity, a regional priority

The Biodiversity Program known as *BioCAF* is aimed at promoting the sustainable use of biodiversity and genetic resources. Through this program the Institution encourages the adoption of sustainable environmental practices, which it is hoped will also lead to a higher quality of life for the people of the region.

BioCAF's many initiatives in pursuit of these goals include workshops, seminars, consultancies, publications and sponsorships, divided into three sub-programs: i) support for biodiversity negotiators from the shareholder nations who take part in forums and help frame international accords relating to trade matters that have an impact on biodiversity; ii) support for the development of biodiversity and genetic resource markets such as bio-commerce and bio-technology; and iii) the promotion of environmental conservation initiatives, primarily linked to CAF operations.

In the context of the first of these sub-programs, CAF provides valuable support to experts and participants from shareholder nations who play a part in negotiating processes in a number of different international forums. These include the biodiversity negotiations under the aegis of the World Trade Organization, the World Intellectual Property Organization, the Biological Diversity Convention and free trade agreements. The subjects discussed primarily involve access to genetic resources, the protection of traditional knowledge, and the fair and equitable distribution of benefits and intellectual property rights relating to such resources.

BioCAF's support has taken the form of a number of publications, as well as the organization of technical workshops in which participants include environmental, trade and foreign ministry officials. The workshops serve to promote contact among the participants and to reinforce the positions of the region in general and of individual countries, either in these forums in particular or in order to establish later courses of action. Among the most important publications produced so far are: Towards the Protection *Sui generis* of Collective and Integral Traditional Knowledge from the Indigenous Perspective; Proposal for a System of Certification for Genetic Resources; and Technical Guidelines for Support for International Negotiation by the Member Countries of the CAN in Relation to Access to Genetic Resources and Traditional Knowledge.

The second sub-program involves the development of markets through bio-commerce and the promotion of bio-technology. Together these are defined as the harvesting and production, processing and commercialization of goods and services derived from native biodiversity –species, genetic resources and ecosystems– in a context of environmental, social and economic sustainability. At present, bio-commerce enjoys a high level of international acceptance and is covered by the Convention on Biological Diversity, the most important multilateral environmental agreement relating to biodiversity.

Aware of the potential of this initiative, *BioCAF* has promoted a number of different activities via important alliances and synergies with various partners who are active in the region, including the Economic Commission for Latin America and the Caribbean (ECLAC), the Secretariat of the Andean Community (CAN), the UN Environment Program (UNEP), the Global Environment Fund (GEF) and the UN Conference on Trade and Development (UNCTAD).

Worth noting among the activities carried out under this sub-program is the project known as Finance Facilitation for Biodiversity Businesses and Support for Market Development Activities in the Andean Region. This project was implemented in Colombia, Ecuador, Peru and Venezuela during the June 2004-June 2006 period. The issues evaluated included inadequate incentives and market barriers in bio-commerce, the need for legal and regulatory reforms, market access, the identification of zones in which bio-commerce should be promoted, the definition of selection and evaluation criteria for pilot initiatives in bio-commerce, key strategies for the sector in relation to improvements in product quality, support for the development of bio-commerce initiatives, market access for specific products and, finally, analysis of supply and demand in relation to sources of finance for bio-commerce in each country and at the regional level. Other activities of considerable importance developed under the support for bio-commerce and bio-technology sub-program include direct backing for the consolidation of National Bio-Commerce Programs and the organization and sponsorship of investment promotion activities for biodiversity products and services, such as the Bio-commerce Investment Forums in Mexico (2002) and Peru (2004) and BioExpo Colombia (2006). This sub-program has also produced important publications in fulfilment of its task of publicizing and promoting the subject, in particular, Bio-commerce in the Andean Sub-region: Opportunities for Development, and Bio-technology for the Sustainable Use of Biodiversity.

Activities under the third sub-program have been directed towards the support of conservation initiatives, especially those related to CAF operations. Thus, resources have been channelled to the conservation of natural areas in a number of countries. These include the *Bofedales de Chaquilla* National Park (Bolivia), the *Vilcabamba-Amboró* Conservation Corridor (Peru-Bolivia), the Nature Reserves of *Tambopata*, *Amarakaeri* and *Titicaca* and the *Bahuaja-Sonene* National Park (Peru) and the *Avila*, *Guatopo* and *Canaima* National Parks (Venezuela).

Latin American Carbon, Clean and Alternative Energies Program (*PLAC*$^{+e}$): CAF's response to climate change

The Latin American Carbon Program (PLAC) was originally created by CAF in 1999. During its first phase, PLAC's activities were focused on publicizing and providing training in relation to the serious problem of climate change and its impact. Additionally, the program sought to support the creation and strengthening of institutions that would incorporate the region's public and private sectors in initial activities related to the Greenhouse Effect Gases Reduction market (GEGR), which the recently-created (1998) Kyoto Protocol allowed via the Clean Development Mechanism (CDM) within the framework of the Climate Change Convention (1992). Subsequently, the PLAC began to participate actively in this market, making CAF the leading development bank in the GEGR market in Latin America. During this phase CAF created two important GEG reduction trading mechanisms: i) the CAF-Netherlands Government MDL Facility for ten million GEG tons, and ii) the Iberoamerican Carbon Initiative, between CAF and the Kingdom of Spain, for nine million GEG tons. The role of the PLAC in this market is to identify and develop the carbon component in the projects and support their proponents in obtaining Emissions Reduction Certificates (ERC), up to the point at which they are registered with the UN's Climate Change Office (UNFCC). The CRE constitute the tradeable goods in this market for the buyers, in this case the governments of the Netherlands and Spain.

The new *PLAC+e* reflects its vocation with the development of the GEGR market, adding the promotion and financing of energy efficiency, as well as clean and alternative energies.

In 2006 the PLAC incorporated as part of its mission the promotion and stimulation of alternative clean fuels and energy efficiency, as an integral response to the problems of climate change. To this end it finances innovative, small-scale, low socio-environmental projects in wind, biomass, geothermic, solar and wave energy. The revitalized *PLAC*$^{+e}$ mission involved diversifying its GEG purchasers portfolio, involving –in addition to the governments of Spain and the Netherlands– the international private and voluntary sectors. To support the promotion of alternative clean fuels and energy efficiency, CAF has created new financing mechanisms and services, both alone and in association with other bodies, the first of these being the CAF-KfW Line of Credit (*see page 30*).

The *PLAC*$^{+e}$ has identified a portfolio of around 16 million GEG tons and is evaluating a further nine million. Additionally, it has registered six projects with the UNFCC and has five more currently being processed. This program has been a global pioneer in developing the only mecha-

4. The Greenhouse Effect Gases (GEG) defined by the Kyoto Protocol include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFC), sulphur hexafluoride (SF_6) and perfluoroclorocarbons (PCF).

nism for proving emissions reduction in the field of urban mass transit systems. It has also pioneered methodological contributions in the area of bio-digesters and renewable energy sources which are now available at the UNFCC.

CAF-KfW Line of Finance

The CAF-KfW line of credit is a financial instrument on soft terms which seeks to provide an incentive for the implementation of new clean and alternative energy and energy-efficiency projects. Through this initiative it is hoped to promote the development of capacities among the region's countries to increase the participation of these forms of energy in the energy basket, so as to reduce the environmental impact of the intensive use of conventional energy sources, and in particular to contribute to the reduction in emissions of GEGs which cause climate change.

The CAF-KfW credit line totals US$ 130 million for use in biomass, wind, geothermic, solar and hydraulic energy projects and in energy-efficiency plans throughout the region, and fresh resources are being sought to add to this total.

Windfarm Project. Wigton, Jamaica

In 2004 Jamaica brought on-stream its first commercial-scale windfarm project.

At the same time, the $PLAC^{+e}$ developed its emissions-reduction component for the international market. The installed capacity of the project is 20.7 MW and one of the additional benefits it has brought has been the substitution of part of the fuel that needs to be imported for the country's thermo-electric power stations which burn heavy fossil fuels (bunker and diesel). The Wigton Windfarm will achieve a reduction in emissions of 540,000 tons of CO_2 by 2012 and is contributing to an increase in the share of clean fuels in the country's energy

Transmilenio Project. Colombia

The first mass transit system in the world under the MDL scheme was developed by CAF in conjunction with Transmilenio in Bogotá, Colombia.

Between 2006 and 2012 the project will reduce emissions of carbon dioxide – the world's most abundant greenhouse gas – by around 1,700,000 tons.

With a UN-approved methodology, CAF showed how CO_2 emissions can be reduced, and opened up the possibility of other mass transport mechanisms around the world taking advantage of the same mechanism.

The Transmilenio Project contributes to a reduction in emissions thanks to the technology it uses and its greater efficiency in transporting passengers.

Additionally, the $PLAC^{+e}$ has contributed to the creation and strengthening of national Kyoto Protocol authorities, through technical cooperation. It has also supported the holding of workshops to strengthen the region's negotiating capacity with regard to the Climate Change Convention and the Kyoto Protocol. Today CAF is recognized in the region as the body which has done most to create spaces for discussion and integration regarding the negotiations, with a view to obtaining more favourable results both for the interests of the region and in relation to climate change. The Institution has held eight workshops, as well as given support to a number of events, organized by designated national authorities, associations and professional bodies, aimed at boosting the carbon market.

Natural Disaster Risk Management and Prevention Program: prevention as guarantee

In response to a request from the Andean Presidential Council at the end of the 1990s, and faced with a growing frequency of natural disasters in the region, with their effects on the population and the economy of the region, CAF created the Andean Regional Program for the Prevention and Mitigation of Disaster Risks (Preandino), whose structure was agreed with the authorities of the countries concerned. From its inception in the year 2000 to the present day, a total of 287 national, sectoral and territorial institutions, organized in 73 working groups and with the participation of more than 1,500 professionals, have taken part in the program.

With a preventative focus, which recognizes the responsibility of the development actors in reducing vulnerabilities, the program took as its main objective support for Bolivia, Colombia, Ecuador, Peru and Venezuela in the formulation of their national, sectoral and territorial risk prevention and mitigation policies, working with more than 161 high-level public-sector authorities to achieve improvements in institutional organization. It also developed institutional schemes designed to incorporate considerations regarding the impact of adverse natural phenomena into planning processes. It provided technical and institutional support to encourage the incorporation of risk prevention and reduction criteria into existing or proposed laws and regulations, as well as to compile and systematize information on dangers and areas of vulnerability and to generate awareness among sectoral and territorial clients. Today, as a result of Preandino, several countries are working to draw up disaster risk reduction planning instruments for incorporation into national, sectoral and territorial development planning. At the regional level, the Andean Committee for the Prevention of and Attention to Disasters (Caprade) was set up, and the Program for the Prevention of Disasters in Andean Community Countries (Predecan), financed by the European Union (Euros 13.5 million) was drafted and is now being implemented via the CAN's general secretariat.

Since the Predecan has provided continuity to the work of Preandino, CAF has decided to redesign its operations and moved from the planning support phase to one involving a greater degree of investment and financing, as required to confront the threat of future disasters in the region. This process gave rise to the Disaster Risk Management Program, in which prevention continues to be the guiding principle.

Cleaner Production Program (CPP): a commitment to the urban environment and industrial development

In response to the increasing urban and industrial pollution faced by the countries of the Andean region and the high cost of implementing conventional decontamination treatments in manufacturing and service industries, CAF launched the Cleaner Production Program (CPP) in July, 2006. The aim of the program is to encourage preventative measures in productive processes, both in large-scale and small- to medium-scale industries, which lead to a reduction in solid, liquid and gaseous waste, energy efficiency and the adequate use of raw materials and other inputs. Through replicable pilot projects, it demonstrates how existing raw materials and energy sources can be used in such a way as to avoid pollution whilst simultaneously promoting competitive practices and environmental and social responsibility among companies.

What economic benefits can be expected from investing in Cleaner Production?

The experience derived from Cleaner Production Centers, located in some shareholder countries of CAF, has shown that the investment required by CPP techniques represents, on average, around 31% of the annual savings that can be obtained through more rational use of energy and industrial inputs, and that in approximately 55% of the cases studied, investments are recovered in less than six months.

Example of 22 enterprises assisted by the Technology Efficiency Center in Peru, implemented Cleaner Production techniques

	Implemented
Estimated investment amount realized by private enterprise	US$ 80,705.00
Estimated annual savings obtained through resource optimization	US$ 750,193.00
Simple rate of return	Two months

* Source: Technology Efficiency Center-Peru

The above example shows the advantages of Cleaner Production, which is an economically viable technique for combating existing pollution problems in CAF shareholder nations, and at the same time enhancing the competitive standing of the companies concerned in a highly specialized global market.

In order to carry out this mission, CAF has established close links with the Cleaner Production Centers located in Latin American countries and with international organizations such as the UN Organization for Industrial Development and other national bodies, both in the public and private sectors associated with the productive and environmental sectors, thereby helping the companies concerned broaden their scope in relation to a global market characterized by growing environmental and social demands.

During the initial phase of this program important advances were obtained in terms of support for the establishment of specific agreements between the public sector and private industry, aimed at achieving industrial decontamination within the framework of CPP. A regional meeting was also held to determine what had been achieved and what remained to be done in this area in the region, and efforts to strengthen the institutional framework of the shareholder nations continue. At the same time, CAF has created and developed specialized financial mechanisms, through alliances that help to promote business opportunities with the *PLAC*$^{+e}$, thereby confirming its commitment to the environment and to industrial development.

Program for Sustainable Development in Financial Institutions

As the principle of sustainable development has become established, both the private and public sectors have developed mechanisms that allow social and environmental objectives to be included in the process of creating value. The global financial sector in particular has become aware that social and environmental impacts can in turn generate effects on the risk profile and profitability of projects and companies, and that these effects are directly transferred to the investor. Thus the financial sector has begun to develop the knowledge and practices required to identify, evaluate and manage the environmental and social risk of its operations and to capitalize on the opportunities presented by the new and emerging environmental markets.

To this end, CAF has designed the Program for Sustainable Development in Financial Institutions, whose objective is to promote the adoption of the principles and practices of environmental and social management in the region's financial sector. Under this program, the Institution has taken part in a number of activities aimed at spreading the message of environmental and social responsibility and providing training to the region's financial bodies.

In 2003 CAF held the Awareness Days: Opportunities and Risks Related to the Environment, for the financial sectors of Bolivia, Colombia, Peru and Venezuela. These sessions were intended to motivate and train its financial partners and other institutions in the region to incorporate environmental criteria into their corporate operations. They were held in conjunction with local partners: Global Sustainable Development Consultants in Bolivia; the Colombian Business Council for Sustainable Development; the Latin American Association of Financial Institutions for Development, of Peru, and the Banking Association of Venezuela.

In 2004 the Institution was a consultant to the Getulio Vargas Foundation during the preparation of the 'scoping paper', a document which provided guidelines for the formal creation of the Latin American Working Group for the Financial Institutions Initiative of the UN Environment Program (UNEPFI), in which CAF played the role of promoter and chair for that year.

In its role as chair of the Working Group, CAF took part in the Annual Meeting of the Financial Institutions Initiative of the UNEP in Tokyo, where it gave a presentation entitled Sustaining Biodiversity: Benefits for Communities–Business Opportunities for Financial Institutions, in order to share the Institution's experiences and its biodiversity program.

In 2005 CAF –in conjunction with the UNEPFI– held the First Workshop on Social and Environmental Risk Evaluation Methodologies in Loan and Investment Projects. The workshop made the region's bankers aware of the need to evaluate and cover the main environmental and social risks associated with credit operations, so as to build a competitive client portfolio at the national and international level and to offer training in environmental and social risk management analysis and the respective mitigation measures.

The achievements and the lessons learned through this program have been summarized in seven publications produced in recent years:

- Fresh Actions for Finance in the Race to Sustainability
- Finance and Sustainable Development
- Awareness Days for the Financial Sector
- Globalization and Sustainable Development
- Opportunities and Challenges for the Financial Services Sector
- Sustainable Finance in Latin America
- Environmental Sustainability and Financial Performance: Four Case Studies in Value Management in Latin America

The Condor Geographical Information System: territorial information for decision-makers

The Condor Geographical Information System was set up in 1995, when CAF and Conservation International decided to join forces in creating the first computerized tool aimed at identifying and preventing the main environmental and social impacts of large infrastructural projects in the Andean region. This led to the compilation of information relating to environmental, geographical and social issues which was not accessible to the public and was scattered across a number of different institutions. Once the information had been gathered, and an initial computer system set up, the first version of the Condor Geographic Information System was launched.

In 2001 the International Center for Tropical Agriculture (CIAT) was asked to develop the first version of the program in Web, and this was published on the Internet in early 2002. This version had advantages over the earlier version, in that it permitted access and updating via the Internet, thus reaching more users, without charging. The Condor home-page was later published on the websites of CAF and of Conservation International, and an extensive personalized program of training in the use of the tool was undertaken, which covered more than 230 key personnel linked to the region's most important infrastructure and environmental institutions. This version is currently being updated in Web in order to render it compatible with the infrastructural development needs of the whole southern hemisphere, in accordance with the integration plans developed by the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

Events

In 2006 CAF held several national and regional events on issues related to climate change, disaster risk reduction, biodiversity and Cleaner Production.

Climate Change

Two regional workshops were held, one in Bolivia and the other in Panama, with the participation of Latin America's Climate Change Offices and foreign ministries. They dealt with the issues of development and the implementation of the Clean Development Mechanism, as well as critical aspects of the international negotiations relating to the Second Meeting of Parts (MOP2) of the Kyoto Protocol. Six national and international workshops were also held to discuss the prospects for sectors such as agro-industry, energy and transport in the GEG market.

Biodiversity

Two workshops were held in Colombia and Peru. The first –Implications of Bilateral Free Trade Agreements with the United States for the Biological and Genetic Resources of Colombia and Peru– featured experts on biodiversity from these two countries. In Peru a workshop and a consultancy were organized to provide technical support to various countries in the region in drawing up a proposal for an International System for Access to Genetic Resources under the Biological Diversity Convention.

Cleaner Production

In Venezuela the First Cleaner Production Workshop was held with the participation of several representatives of Cleaner Production Centers and a number of Latin American governments. The workshop provided a forum for sharing experiences and knowledge and for identifying ways of promoting CP in the region.

Disaster Risk Reduction

The workshop Investing in Disaster Risk Reduction brought together representatives from the ministries of planning, economy and finance of Bolivia, Colombia, Ecuador, Peru and Venezuela for the purpose of strengthening the investment identification process for disaster risk reduction, improving channels of information and procedures for incorporation risk prevention criteria in national public investment systems.

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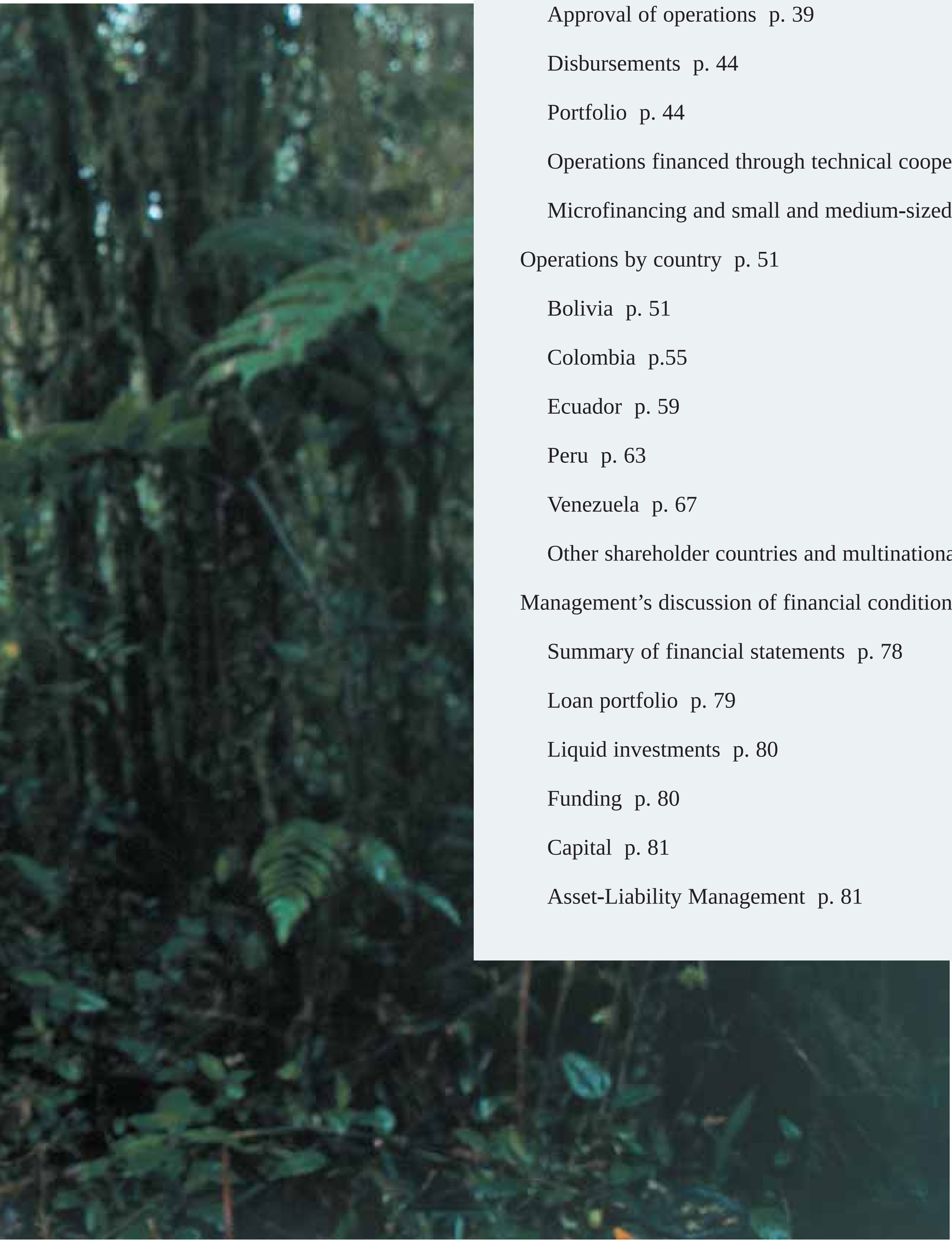


Operations

Approval of operations

CAF'S PROPOSED ACTIVITIES FOR 2006 were determined on the basis of the economic projections for Latin America, which pointed to a general improvement in the situation and to vigorous growth in the Andean economies, resulting from a moderate performance in the export sector and equilibrium between the primary and non-primary sectors of the economy.

It was in this context that CAF approved operations for US$5,521 million (*Table N° 1*), an increase of 16% over the previous year, once again confirming its status as a reliable provider of resources for its public and private clients in the region. Direct approvals were 28% up on the year before, and thanks to investment initiatives which aroused the interest of other sources of economic development financing for the region, catalytic approvals were also substantially up.

It is worth noting the amount approved for non-Andean countries (US$1,316 million), which is 24% of the total –a fact which reflects the importance CAF attributes to Latin American integration processes.

Table N° 1

Approvals by country

	(in millions of US$)					
	2002	2003	2004	2005	2006	2002-06
Country						
Bolivia	503	619	499	523	397	2,541
Colombia	750	617	922	1,237	1,001	4,526
Ecuador	407	438	338	815	1,024	3,023
Peru	498	633	604	417	941	3,092
Venezuela	762	535	821	627	842	3,587
Argentina	-	175	60	257	580	1,073
Brazil	260	245	170	695	579	1,949
Costa Rica	-	30	63	2	25	119
Mexico	2	2	2	5	10	20
Panama	-	-	1	80	53	134
Paraguay	-	-	11	11	3	25
Uruguay	100	-	-	70	20	190
Rest	9	9	13	7	46	85
Total	**3,290**	**3,303**	**3,503**	**4,746**	**5,521**	**20,363**

Additionally, 50.8% of the year's approvals went to infrastructure projects, of which 22.9% was integration infrastructure, 15.2% social development infrastructure and 12.7% economic infrastructure (*Graph N° 1*).

The Institution continued to support a number of initiatives in the area of sustainable infrastructure which contribute to the logistical platform required for competitiveness. It assigned US$1,949 million, or 35% of the resources approved for member countries, to this category.

These operations were carried out with due respect for environmental conservation considerations and in conjunction with other initiatives of a social nature. Of this amount, financing for regional integration amounted to approximately US$1,265 million, which went on road projects, transport systems, railways and electricity connections, particularly in South America. It is worth noting the growing participation of CAF in Public-Private Partnerships (PPP) for the construction of public infrastructure such as highway concessions and polyducts.

CAF also approved US$50 million for the creation of a Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra), whose aim is to support countries in the correct preparation of investment projects, provide advice on the preparation of tender documents, the financial structuring of operations and subsequent negotiations.

One of the most urgent challenges facing the region is the need to achieve social inclusion. This involves providing marginal sectors of society with the tools and assets needed for their own development, increase the implementation capacities of the bodies concerned in order to improve the quality of social spending, incorporating new social actors in the public policy agenda and providing an effective social protection network. In 2006 CAF provided US$840 million for the promotion of this type of initiative, which went towards the implementation of projects in the areas of water and sanitation, rural development, education and health.

With the aim of making the financing conditions for projects in the social field more attractive, the Compensatory Finance Fund –which is primarily backed by CAF's profits and consists of a mechanism whereby the finance costs of sovereign risk projects with a high development impact is reduced– was strengthened.

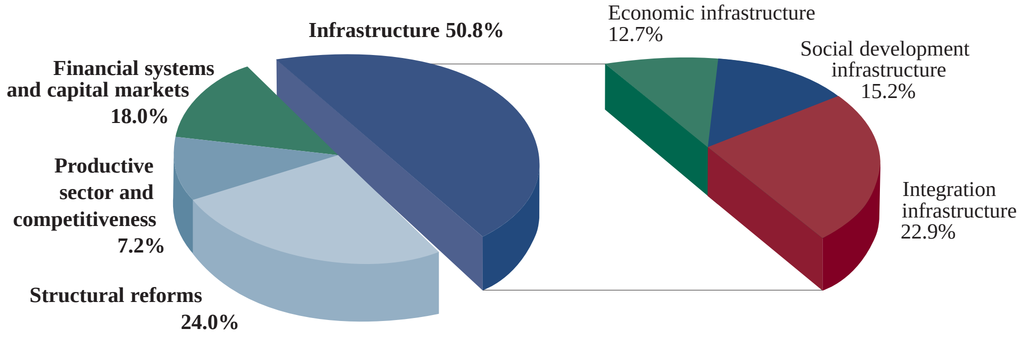
Worth noting is the Institution's growing participation in the financing of investments intended to expand productive capacity. Thus, new operations approved by CAF for the productive sector totalled approximately 25% of the total. These operations channel resources into priority attention to micro-, small- and medium-sized businesses, either directly or through financial systems, via projects which translate into enhanced business competitiveness through expanded production, the development of production-support infrastructure and regional expansion.

In addition, CAF provided US$1,325 million for macroeconomic stability, approving operations aimed at strengthening public debt management. Resources have been channelled into improvements in liability management and a reduction in currency gaps in the public-sector monetary system, as well as the granting of loans to support institutional reform, especially in relation to the optimal use of budgetary resources.

Graph Nº 1

Approvals by strategic sector

As of December 31st, 2006



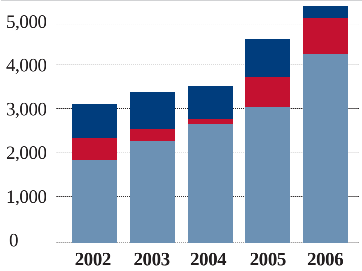
Approvals by term

Based on CAF's commitment to finance operations that promote sustainable development and regional integration, in 2006 –as was the case in previous years– long-term loans continued to represent the largest portion of loans approved. This is reflected in the fact that operations of five years or more represented 79% of the total.

Also worthy of note is CAF's participation in medium-term (one to five years) operations, which made up approximately 17% of the total in 2006 (*Graph N°2* and *Table N°2*). There was a significant reduction, meanwhile, in the approval of short-term operations, reflecting the Institution's commitment to investment projects which, by their nature, require lengthy implementation periods.

Table Nº 2

Graph Nº 2



Approvals by term

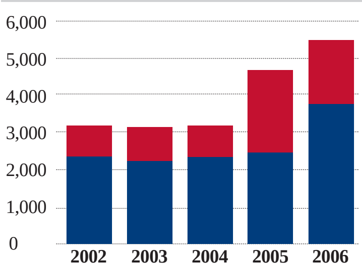
(in millions of US$)	2002	2003	2004	2005	2006	2002-06
Long-term loans	1,920	2,202	2,682	3,049	4,360	14,213
Medium-term loans	625	218	62	876	952	2,733
Short-term loans	745	884	758	822	209	3,417
Total	**3,290**	**3,303**	**3,503**	**4,746**	**5,521**	**20,363**

Approval of operations by risk

As a consequence of the greater certainty brought about by the region's positive economic performance and the existence of favorable external conditions, there was also support in 2006 for investment initiatives undertaken by the private sector, leading to an important percentage of non-sovereign risk operations in CAF's inventory of approvals (*Table N°3*). Thus, by the end of the year such operations had reached US$1,730 million (*Graph N°3*), representing 31% of the total and reaffirming CAF's commitment to contribute to an improvement in competitiveness and entrepreneurial capacity. Nevertheless, sovereign risk operations continued to predominate, representing 69% of the total number of approvals, or US$3,791 million, for the period.

Table Nº 3

Graph Nº 3



Approvals by risk

(in millions of US$)	2002	2003	2004	2005	2006	2002-06
Sovereign	2,385	2,166	2,330	2,473	3,791	13,146
Non-sovereign	905	1,137	1,172	2,273	1,730	7,217
Total	**3,290**	**3,303**	**3,503**	**4,746**	**5,521**	**20,363**

Loan approvals by economic sector

As can be seen from *Table N° 4*, 2006 reaffirmed the importance of approvals for projects in the transport, storage and communications industries; electricity, gas and water supplies; public administration, health and other social services. Of the total approved, 38% (US$1,625 million) corresponds to transport infrastructure improvement works, or those designed to increase the provision of basic services to the population. The implementation of these projects lays the groundwork for an improvement in competitiveness in the region.

Table N° 4

Approvals by economic activity

	(in millions of US$)					
	2002	**2003**	**2004**	**2005**	**2006**	**2002-06**
Economic activity						
Agricultural infrastructure	80	51	-	0	0	131
Mining	-	30	-	50	20	100
Manufacturing	22	281	-	456	190	948
Power, gas and water	769	380	626	674	382	2,831
Transportation, warehousing and communications	1,103	1,287	1,189	1,606	1,625	6,810
Public administration	-	172	735	700	1,345	2,952
Hospitality management and restaurants	20	-	2	0	0	22
Financial institutions	-	-	-	22	0	22
Other health and social services	369	271	199	125	715	1,679
Education	167	40	-	55	50	312
Total	**2,529**	**2,512**	**2,751**	**3,687**	**4,326**	**15,806**

This category includes, for instance, highway development programs in the majority of the region's countries, electricity networks in Argentina, Bolivia, Panama and Peru, as well as construction and mass transit improvement programs in Venezuela. Under the heading of provision of basic services, the drinking water, basic sanitation and irrigation investment programs in Colombia, social investment insurance in Ecuador and housing programs in Venezuela should be noted. There was also significant support for environmental programs in Bolivia and Peru.

As can be seen from the preceding table, significant resources were also devoted to public administration projects, aimed at structural improvements in public administration, and particularly in the quality of public spending and the profile of public debt. These represented 31% (US$1,345 million) of the total.

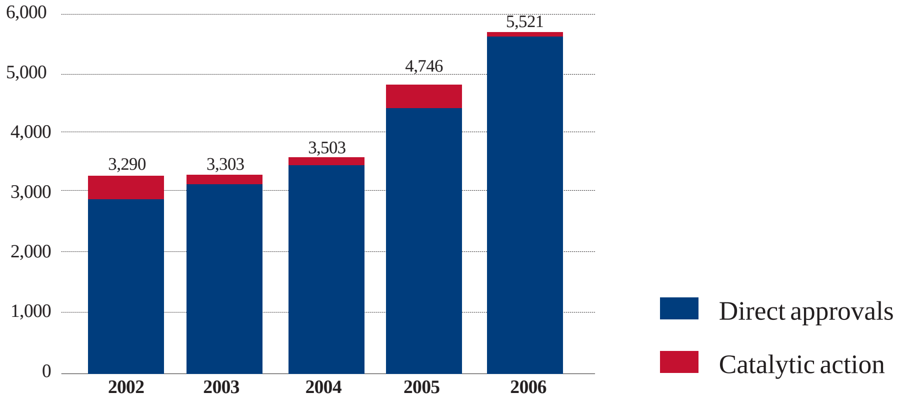
Financing structure and catalytic role

In compliance with one of CAF's principles, which is to act as a catalyst in country finance, during the past five years the total approvals associated with this aspect of the Institution's activities –which complements its direct financial operations– exceeded US$1,300 million (*Graph N° 4*).

Graph N° 4

Catalytic role in approvals

(in millions of US$)



It should be noted that the Institution's participation facilitated the region's access to other sources of finance in the international financial markets. In 2006 these provided US$68 million, allocated to structured A/B loans and credit guarantees approved for the public and private sectors.

CAF also reaffirmed its presence in country financing through greater participation in social development projects during 2006. *Table N° 5* shows the ratio of resources approved to total costs. The indicator reached 42% at year-end (US$4,189 million), a rise of more than 30% over the previous year.

Table N° 5

Financing structure and corporate loans

	(in millions of US$)				
	2002	**2003**	**2004**	**2005**	**2006**
Financing source					
CAF loans	2,121	2,359	2,542	3,221	4,209
Client contributions	752	3,095	3,087	1,559	2,437
Other local sources	92	1,037	680	1,779	3,307
External sources	624	3,191	2,650	1,802	52
• Loans from multilateral organizations	146	1,625	1,453	583	52
• Other external sources	478	1,565	1,198	1,219	0
Project's cost	**3,589**	**9,683**	**8,959**	**8,362**	**10,004**
CAF loans / Project's cost	**59%**	**24%**	**28%**	**39%**	**42%**

Disbursements

During 2006 CAF disbursed in total US$3,006 million, including the B tranches of A/B operations (*Table N° 6*). Of the total amount disbursed in the course of the year, 89% (US$2,676 million) went to Bolivia, Colombia, Ecuador, Peru and Venezuela. Likewise, in accordance with CAF's integrationist policy in the region, there was an important transfer of resources in 2006 to the other shareholder nations, via disbursements in the order of US$330 million (11% of the total). In this way CAF reaffirmed its commitment to supporting investment projects and programs whose aim is to contribute to equitable and inclusive development in the region, as well as promoting sustainable economic growth.

Table Nº 6

Disbursements by country

	(in millions of US$)					
Country	2002	2003	2004	2005	2006	2002-06
Bolivia	365	346	258	280	189	1,437
Colombia	591	325	647	688	654	2,905
Ecuador	221	359	298	340	504	1,723
Peru	413	267	465	256	484	1,885
Venezuela	311	337	309	208	845	2,011
Rest	284	145	52	565	330	1,377
Total	**2,186**	**1,780**	**2,029**	**2,337**	**3,006**	**11,337**

Portfolio

At the end of 2006 CAF's total loan and investment portfolio –that is, both the portfolio of direct loans and investments, that of third parties managed and administered by the Institution, and those credits associated with the Partial Credit Guarantees (PCG) it provides– reached a total of US$8,904 million, or 10% more than in 2005. This is a continuation of the growth pattern of recent years.

Graph Nº 5

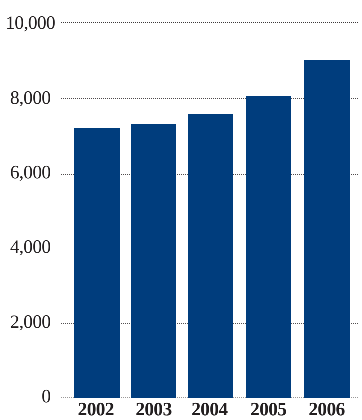


Table Nº 7

Total portfolio*

	(in millions of US$)				
	2002	2003	2004	2005	2006
CAF's Direct Loan Portfolio	**6,180**	**6,712**	**7,216**	**7,462**	**8,191**
• Loan portfolio	6,062	6,597	7,104	7,347	8,097
• Capital investments	117	115	112	115	93
Catalytic action	**1,051**	**738**	**583**	**620**	**714**
• Loan portfolio administered by CAF	647	409	280	419	494
• Capital investments administered by CAF	4	4	3	3	3
• PLG related portfolio	400	325	299	199	217
Total portfolio	**7,230**	**7,451**	**7,799**	**8,082**	**8,904**

* Includes third party portfolio administered by CAF and PCG.

Loan portfolio by country

In 2006, 88% of CAF's portfolio was allocated to Bolivia, Colombia, Ecuador, Peru and Venezuela, while the remaining 12% went to other shareholder nations. It is important to note that the latter's portfolio rose by 25% in comparison with 2005, increasing from US$879 million to US$1,102 million (*Table N° 8*), in line with the Latin American orientation of the Institution. This growth reflects a broader vision of the region on the part of CAF, which is perceived to be a reliable source of financing, and is valued for the quality of its operations, thereby enhancing its financial capacity.

Table N° 8

Total portfolio* by country

	(in millions of US$)				
	2002	**2003**	**2004**	**2005**	**2006**
Country					
Bolivia	703	883	962	1,125	1,195
Colombia	2,122	1,991	2,111	1,985	1,703
Ecuador	1,122	1,209	1,226	1,231	1,372
Peru	1,299	1,403	1,664	1,724	1,807
Venezuela	1,348	1,289	1,219	1,137	1,725
Rest	637	676	616	879	1,102
Total	**7,230**	**7,451**	**7,799**	**8,082**	**8,904**

* Includes third-party portfolio managed and administered by CAF, and PCG.

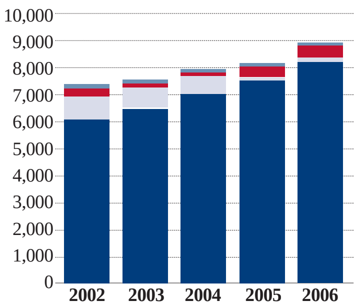
Total portfolio by *modus operandi*

As can be seen from *Table N° 9*, the capital investments portfolio at the end of 2006 totalled US$96 million and was composed of 15 equity investments, managed either directly or via investment funds. Several economic sectors were thus supported, including infrastructure and MSMEs. In addition to seeking a return on investment, this portfolio's primary purpose is to promote sustainable development in Latin American countries, especially those which are shareholders in CAF.

As for the loans portfolio, 2006 saw a continuation of the growing tendency to support operations requiring longer timescales, primarily those programs and projects designed to create economic infrastructure and social development. As can be seen in *Graph N° 6* and *Table N° 9*, the long-term loans portfolio totalled US$8,175 million in the period under review. The medium-term portfolio underwent an expansion, while the short-term portfolio also grew, driven by operations which by their nature do not require long amortization periods, such as loans placed through the financial system and some assigned to private-sector companies.

Table Nº 9

Graph Nº 6



Loan portfolio* by risk

	(in millions of US$)				
	2002	**2003**	**2004**	**2005**	**2006**
Modus operandi					
Capital investments	121	119	116	117	96
Loans	**7,109**	**7,332**	**7,684**	**7,965**	**8,808**
• Long-term	6,151	6,444	7,041	7,568	8,175
• Medium-term	763	748	493	57	181
• Short-term	195	139	150	339	453
Total portfolio	**7,230**	**7,451**	**7,799**	**8,082**	**8,904**

* Includes third-party portfolio managed and administered by CAF, and PCG.

Table Nº 10

Total capital investment portfolio

	(in millions of US$)				
	2002	**2003**	**2004**	**2005**	**2006**
Country					
Bolivia	10	10	8	8	8
Colombia	2	2	1	1	0
Ecuador	1	1	1	1	1
Peru	16	14	12	10	4
Venezuela	2	0	0	0	0
Rest	89	92	93	96	82
Total	**121**	**119**	**116**	**117**	**96**

Total portfolio by risk

The portfolio in 2006 was 86% composed of sovereign risk loans, which totalled US$7,289 million (*Table N° 11*), reflecting a major commitment of support to member countries and principal clients. Non-sovereign risk represented the remaining 18% (US$1,615 million), which represented a significant increase over the previous year (*Table N°10*) and underscored CAF's commitment to supporting the growth of the private sector in order for it to meet successfully the challenge of improving competitivity.

Table Nº 11

Loan portfolio* by risk

	(in millions of US$)				
	2002	**2003**	**2004**	**2005**	**2006**
Sovereign risk	5,719	6,315	6,855	6,726	7,289
Non-sovereign risk	1,512	1,136	944	1,356	1,615
Total	**7,230**	**7,451**	**7,799**	**8,082**	**8,904**

* Includes third-party portfolio managed and administered by CAF, and PCG.

Loan portfolio by economic activity

As can be seen from *Table N° 12*, in 2006 CAF continued to support the infrastructure sector, one of the region's main priorities. Transport, storage and communications, together with electricity, gas and water supplies, made up almost 50% of the Institution's total portfolio. In keeping with CAF's strategic priorities, under which social development is perceived as fundamental in overcoming poverty and promoting welfare, the teaching, social services and health sector ranks second, with approximately 20% of the total portfolio.

Table Nº 12

Total portfolio* by economic activity

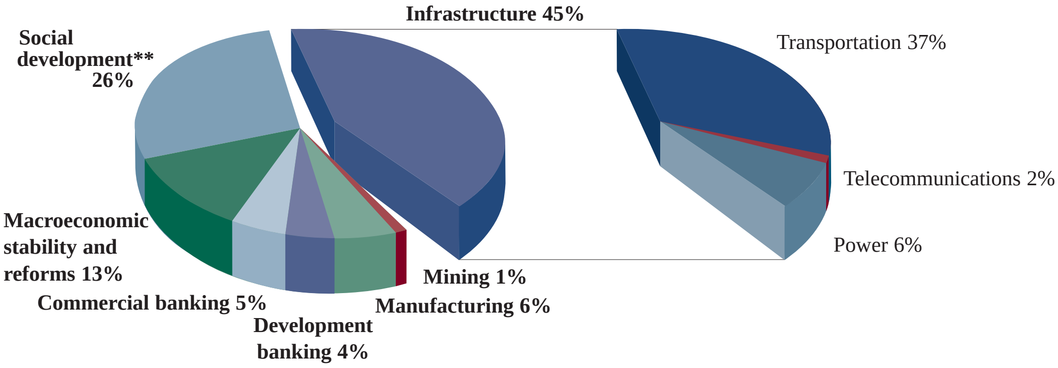
	(in millions of US$)				
	2002	2003	2004	2005	2006
Economic activity					
Agricultural infrastructure	344	293	271	220	144
Mining	4	34	13	10	60
Manufacturing industry	511	307	278	491	523
Power, gas and water	1,624	1,454	1,015	928	997
Transportation, warehousing and communications	2,023	2,597	2,942	2,930	3,459
Commercial banking	522	319	395	493	460
Institutions for development	595	534	346	365	360
Education, social and health services	1,542	1,444	1,879	1,729	1,695
Other activities	66	469	659	916	1,206
Total	**7,230**	**7,451**	**7,799**	**8,082**	**8,904**

* Includes third-party portfolio managed and administered by CAF, and PCG.

Graph Nº 7

Total portfolio* by economic activity

As of December 31st, 2006



* Includes third-party portfolio managed and administered by CAF, and PLG.
** Includes water purification, education and other social and health services, as well as the social infrastructure portfolio.

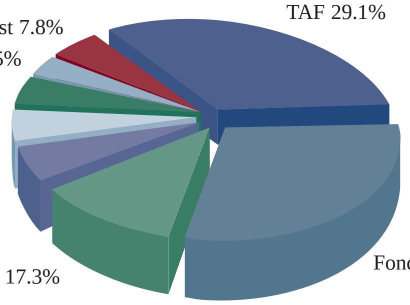
Operations financed through technical cooperation funds

Cooperation funds are those non-reimbursable resources used by CAF to support strategic programs and other activities. They are derived from the Institution's net profits, together with third-party contributions administered by CAF. The latter include the Technical Assistance Fund (TAF), the Human Development Fund (Fondeshu), the Latin American Carbon and Clean Energies Program (*PLAC*$^{+e}$), the Andean Energy Conservation Fund (FACE), the Investment and Business Development Fund (FIDE), the Spanish Technical Cooperation Funds, the Financing Compensation Fund (FCF), the Infrastructure Projects Promotion Fund (FPIP) and the KfW Fund, as well as the Special Funds for Bolivia (SFB) and Ecuador (SFE) and those assigned to the HIPC Program.

Graph Nº 8

CAF: Sources of technical cooperation funds

As of December 31st, 2006



Total US$ 38 MM

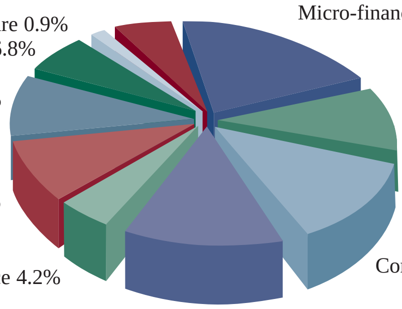
Approvals under these headings totalled approximately US$38 million in 2006. As can be seen in *Graph N° 8*, TAF and Fondeshu are responsible for the majority (57%). Other resources include those assigned directly to the HIPC program (10.7% of the total, or US$4 million). Also noteworthy are the FIDE approvals, which represent nearly US$6.3 million, and those in support of MSMEs, which account for 17%. Operations totalling approximately US$1.7 million were approved through the Spanish Fund, while the remainder (US$4 million) was made up of operations relating to the SFB, SFE, FIDE, KfW and *PLAC*$^{+e}$.

Graph N° 9 shows cooperation funds broken down by type of activity. Cooperation funds are primarily used in the areas of competitiveness, MSME risk capital, microfinancing and the HIPC initiative. Community development and governance programs are the next most important areas. Other significant fractions of these resources are devoted to CAF's special programs, such as IIRSA and the Sustainable Development Program.

Graph Nº 9

CAF: Allocation of technical cooperation funds

As of December 31st, 2006



Total US$ 38 MM

Microfinancing and small and medium-sized business operations

In 2006 various credit lines were renewed with 32 microfinancing institutions and six new lines were issued, three of them in *Series C* shareholder countries: Argentina, Mexico and Uruguay. The total portfolio by the end of the year was US$92 million, which was a 48% increase over December 2005 (US$61.8 million). This growth was the result of various factors such as the incorporation of new clients, the increase in some lines of credit and the creation of new products.

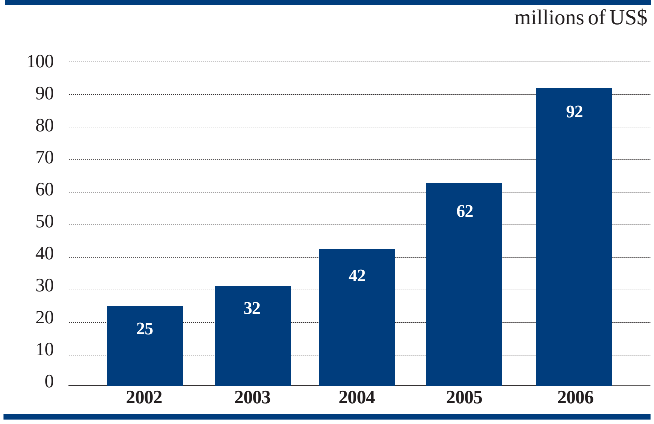
Also noteworthy were the first disbursement in local currency to a financial institution in Peru, and the approval of financing in local currency to institutions in Bolivia, Colombia and Mexico. The first CAF trust fund for financing rural micro-businesses in Ecuador was also approved.

Likewise, CAF developed several alternative financing mechanisms to service the small and medium business sector, such as the stock guarantee fund. These funds issue guarantees to partially support short-term debt securities issued by MSMEs, thereby enhancing their credit quality. In addition, CAF approved a partial loan guarantee to enhance the financial capacity of clients that would otherwise have limited access to new loans.

Using FIDE resources, in 2006 CAF continued to support capital growth and innovation in the MSME sector. A total of 14 operations of this kind were carried out in ten countries, via investment in Argentine and Brazilian funds, in which CAF increased its investment portfolio in the technological and agro-industrial sectors.

Graph Nº 10

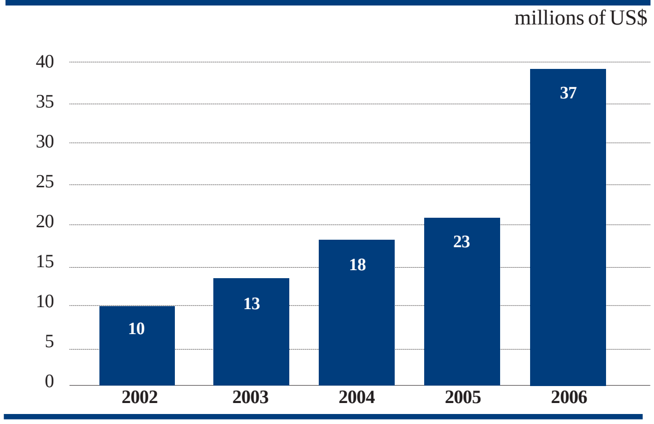
Microfinancing: total portfolio*



* Includes the loan and investment portfolio, and bond issuance guarantees.

Graph Nº 11

Microfinancing: disbursements



Bolivia

During the last five-year period (2002-2006) CAF has approved US$ 2,541 million in operations for Bolivia, which represents an average of US $508 million per annum, or 12% of the total for the period. Disbursements totalled US$ 1,437 million (13% of total disbursements), which represents an annual average of US$ 287 million.

DURING 2006, TOTAL APPROVALS TO BOLIVIA reached US$ 397 million, or 7% of the total for the year, while disbursements grew to US$ 189 million (6% of the total). By the close, the country portfolio* stood at US$ 291 million, which represents 13% of the total.

Sovereign-risk approvals amounted to US$ 291 million, with special emphasis on approvals for infrastructural developments linked to the transport sector, and particularly those promoting regional integration and facilitating preventative measures linked to disaster emergency response.

A total of US$ 276 million was assigned to support the government's aim of improving routes between regional capitals, as well as integration with neighbouring countries and, in general, the strengthening of the transport sector. The financing granted under this heading also contributed to improvements in the country's competitive profile, by allowing agricultural producers to reduce the cost of their products, as well as by integrating more people into the development process. It also enhanced the quality of life of the inhabitants of those regions which benefited, by generating employment for skilled and unskilled workers, with a large multiplier effect on other productive sectors. All efforts in the area of transport infrastructure contribute to easing the isolation of provinces, municipalities and communities within the area of influence of the project concerned. Particular highlights of this category include the financing of the Southern Integration Highways Program–Phase II, the *Guayaramerín–Riberalta* and *Potosí–Uyuni* highways project, and the *Huachacalla–Pisiga* Project.

Under the heading of economic infrastructure, a further US$ 15 million was approved to support repair and reconstruction work after flood damage occasioned by heavy rains in late 2005/early 2006. These funds are expected to permit preventative measures which, in the short term, will reduce the magnitude of disaster damage, and in the long term permit a more efficient response to emergencies.

In the areas of competitiveness, productive sectors and MSME funds totalling US$ 49 million were approved for private sector investment initiatives in manufacturing, mining, dairy production and non-traditional exports.

In the area of strategic priorities linked to financial systems and capital markets, loans totalling US$40 million were approved. These were channelled to MSMEs via a number of intermediaries, which will finance investment loans, working capital and foreign trade operations.

Other contributions to the sustainable development of Bolivia

In 2006, CAF approved approximately US$ 2 million out of cooperation resources from its Technical Assistance Fund, the Human Development Fund and the Special Fund for Bolivia, in response to particular requests from both public- and private-sector enterprises.

In addition, the Governance and Policy Management Program provided training in government and politics to leaders and their support teams. This was carried out in alliance with the George Washington University and the *Universidad del Valle*. The Transformation Leadership Program, which seeks to instil civic and democratic values, closed 2006 with a total of 1,317 individuals trained. The

CAF has contributed to the recovery and conservation of the cultural heritage of the Bolivian city of Sucre by training underprivileged youths in relevant skills.

* Includes the portfolio managed and administered by CAF, as well as operations linked to the partial credit guarantees (PCG) given by the Institution.

Approvals to Bolivia. 2006

(in millions of US$)

Client/Executor	Operation	Objective	Amount	Term years	Project cost
Republic of Bolivia/ Administradora Boliviana de Carreteras (ABC)	Southern Road Integration Program–Phase II	Promote economic and political integration through the exchange of goods and services among altiplans, valleys, and Eastern flats	120	18	168
Republic of Bolivia/ Administradora Boliviana de Carreteras (ABC)	Integration Road Huachacalla–Pisiga	Execute the pavement of a road trench of 71 km between the populations of Huachacalla and Pisiga, in the Oruro department, Chilean border	25	18	95
Republic of Bolivia/ Viceministerio de Descentralización, Gestión Departamental y Comunal	Natural Emergencies Attention Program	Conduct renovation and reconstruction activities of the damages produced by rain and develop preventive actions	15	18	82
República de Bolivia / Administradora Boliviana de Carreteras (ABC)	Road Integration Project Riberalta–Guayamerín	Improve road transit conditions to offer greater regional communication and economic dynamism within the area of influence	42	18	46
Republic of Bolivia/ Gobierno Municipal de La Paz (GMLP)	Triplet Bridge	Interconnect road access across La Paz	14	15	19
Republic of Bolivia/ Administradora Boliviana de Carreteras (ABC)	Road Project Potosí–Uyuni	Develop and promote productive and commercial activities and tourism in the area	75	18	108
Various private sector clients	Miscellaneous	Finance foreign trade operations, working capital, and investments in capital goods	104	Various	73*
Various beneficiaries	Operations with cooperation resources	Contribute to the country's sustainable development	2	n.a.	n.a
Total			**397**		**591**

* Includes only the cost of investment projects financed to the private sector.
n.a. not applicable

Efficient and Transparent Municipalities Program (MuNet) provided training in electronic government, surveying and registration.

Under the heading of ethics and transparency for development, decentralization and citizen participation, and leadership for transformation, projects relating to state purchases, social protection and community development were carried out.

CAF supported a number of initiatives under its Competitiveness Program. The *Costo Bolivia* project, developed jointly with the *Santa Cruz* Chamber of Industry, Commerce, Services and

From top to bottom:
The President of the Republic of Bolivia, Evo Morales, and the executive president of CAF, Enrique García, shake hands after signing a credit contract and two technical cooperation agreements.

Aymara women in Vivaque, in the municipality of Calamarca, build bridges between the community and the health services.

The El Carmen-Arroyo Concepción section of the Santa Cruz-Puerto Suárez highway that links Bolivia and Brazil.

Tourism (Cainco), aims to establish an action plan which will produce significant improvements in the business climate. Projects aimed at enhancing entrepreneurial skills and new business creation were also developed, such as the second edition of the Entrepreneurial Ideas Contest, which featured more than 2,500 business initiatives. The project Plant your Business: Implementation of the First Enterprise Incubator in La Paz also made progress during the period.

CAF continued throughout the year to support projects aimed at strengthening the area of social responsibility, with initiatives to promote opportunities in the fields of music, sports and cultural heritage, among others, at local level. The project known as Building Bridges between the Community and the Health Services sought to educate *Aymara* and *Quechua* women in issues relating to reproductive and sexual health. The *Sembrando Gas* project aimed to improve the health and nutritional conditions of the population of *El Alto*, while the Comprehensive Education *Project* focused on the municipality of *Calamarca*. Culture for Development: the Viacha, Tiwanaku and Lake Titicaca Tourism Circuit promoted tourism based on traditional community values.

The Social Action for Music program held a number of workshops during the year in *El Alto*, *La Paz*, *Santa Cruz* and *Urubicha*. Some 250 children and young people took part in classes under a scheme known as the Mobile Andean Conservatory (CAI). More than 2,000 children and young people of both sexes also benefited from training in sports techniques and values, while sports clinics broadened the number of direct beneficiaries to more than 5,000.

Colombia

During the last five years (2002-2006) CAF has approved operations for Colombia totalling US$4,526 million, which represents an annual average of US$905 million, or 22% of the total approved in this period. Disbursements totalled US$2,905 million, or 26% of the total, and averaged US$581 million per annum.

CAF APPROVED A TOTAL OF US$ 1,001 million in funds for Colombia in 2006, a figure which represents 18% of the total for the year, while disbursements rose to US$ 654 million (22% of the total). At the close of the year, the Colombian portfolio stood at US$ 1,703 million, or 19% of the total.

Sovereign-risk approvals amounted to US$ 458 million and included water and drainage projects in a number of regions, as well as macroeconomic stability programs, focussed particularly on the management of public debt. Resources were also approved for non-sovereign risk social development projects totalling US$542 million. Outstanding among these were infrastructural works aimed at improving public services and loans to MSMEs via the finance system to boost export production and generate energy.

It is worth noting that 11% of operations approved (US$ 108 million) were in the area of social development, and were aimed particularly at improving the provision of basic social services by strengthening regional management systems. Thus, US$ 58.1 million were approved for water and basic sanitation schemes, while US$ 50 million went to education, in a bid to improve access and teaching levels, as well as reducing desertion rates, especially among students from less privileged backgrounds.

In the categories of competitiveness, productive sectors and MSMEs, operations totalling US$ 67 million were approved for investment project financing, working capital and commercial lines. Noteworthy were corporate loans to several different business groups and the assignment of resources to regulated micro-finance institutions.

In the category of financial systems and capital markets, US$ 425 million was channelled to MSMEs through a number of intermediaries for investment loan finance, working capital and foreign trade operations.

In the area of macroeconomic stability, resources were approved in support of the Colombian government's economic growth strategy. For example, the use of a contingent credit line for up to US$ 400 million was approved which will allow the finance ministry the resources to manage and restructure the public debt without significant restrictions, thereby contributing to an improvement in public finances.

Other contributions to the sustainable development of Colombia

Operations totalling some US$ 1 million were approved during 2006 using cooperation funds. The focus was on governance, competitiveness, social responsibility, integration, public policy, environment and social development.

The ongoing Governance and Political Management Program, run jointly by the George Washington University and the universities of *Rosario*, *Autónoma de Bucaramanga* and *Francisco de Paula Santander*, has trained a total of 320 individuals since its inception in 2003. The Leaders for Transformation Program, dubbed the "Citizenship School: a new culture for democratic transformation",

The Buenaventura Port was included in CAF's First Class Ports Program to promote the infrastructure agenda. Buenaventura is the main port of the Colombian Pacific.

* Includes the portfolio managed and administered by CAF, as well as operations linked to the partial credit guarantees (PCG) given by the Institution.

Approvals to Colombia. 2006

(in millions of US$)

Client/Executor	Operation	Objective	Amount	Term years	Project cost
Empresa Aguas del Magdalena	Drinkable water and sewing system Program	Improve coverage, quality and efficiency conditions in water service supply and sewer system in the Magdalena department	58	10	126
Republic of Colombia/ Ministerio de Hacienda y Crédito Público	Contingent credit lines	Support the National Government's efforts in the execution of the public debt strategy	400	18	n.a.
Distrito Capital de Bogotá	Support to the Education Plan: *Bogota: una gran escuela*	Finance school infrastructure, furniture and equipment in educational centers, strengthen institutions	50	18	64
Findeter	Credit line	Finance foreign trade operations, working capital and investments in capital goods	50	1	*
Various private sector clients	Various	Finance foreign trade operations, working capital and investments in capital goods	442	Various	*
Various beneficiaries	Operations with cooperation resources	Contribute to the country's sustainable development	1	n.a.	n.a.
Total			**1,001**		**190**

*Credit lines
n.a. not applicable

was launched in alliance with the *Escuela Superior de Administración Pública (ESAP)*. Aimed at instilling civic and democratic values in leader figures, it had trained 1,666 people in almost 140 muncipalities by the close of 2006.

Non-reimbursable funds from Proinfra were used to promote infrastructural improvements leading to enhanced competitiveness in foreign trade. Resources were also channelled into the culmination of a project to support the palm-oil cluster, and two other important clusters –cosmetics and personal hygiene and petrochemicals, plastics, rubber, paints, dyes and synthetic fibers– were supported with funds to improve logistics and productive and commercial capacity. The Competitiveness Program (PAC) initiated two new projects under its Phase III: Methods to Reinvent the Logistics of your Business (known as MERLIN), which seeks to enhance the quality of certain perishable goods through changes in transport methods, and the Auto-Parts Suppliers Development Program: Competitiveness Management Model, which will contribute to improvements in the ability of the Colombian motor industry to compete at a global level.

There was also ongoing support for projects aimed at promoting social responsibility and the development of social capital. Particular attention was focussed for the first time on border areas, through bi-national cultural programs. There were advances in the field of music, both in orchestral and choral activities and in instrument-making. Choral training has benefited from workshops in singing and conducting held in Bogotá, Medellín and Cali, in which some 50 conductors and 3,000 chil-

From top to bottom:
The executive president of the CAF, Enrique García, attended the inauguration of Colombian President Alvaro Uribe Vélez.

Improvements in the supply and distribution of palm oil and its ingredients were achieved through studies carried out in conjunction with Fedepalma.

The *Empresa Cultural* project trains young people from Medellín in instrument-making as a means of improving their employment prospects.

dren and young people participated. Work began with *Fe y Alegría* and with the Colombian Choral Corporation for boys and girls in Bogotá. In Medellín, the first phase of the Escuela Cultural project, designed to teach instrument-making, was completed, in alliance with the public sector and Antioquía business groups.

In the orchestral field, 300 children and young people from Bogotá were the beneficiaries of an alliance with the *Fundación Batuta* and the *Universidad Corpas*. Two CAI workshops for instrumental training were held in Bogotá, Medellín and Villavicencio. Some 3,2000 children and young people from marginal communities received training in sports and values, not only in Ciudad Bolívar and Suba in Bogotá but, also under an expanded program, in Cartagena, Sincelejo, Barbosa, Puerto Tejada, the Agua Blanca district of Cali and the north-eastern commune of Medellín.

Approximately 400 young people of limited means were trained in traditional construction skills and techniques at workshops in Bogotá, Cartagena, Mompox and Popayán under the Basic Skills and Heritage Conservation Program, run jointly by the Spanish International Cooperation Agency and the local state and municipal authorities with the aim of improving their employment prospects and aiding the conservation of their regions' heritage.

Ecuador

During the past five years (2002-2006) CAF has approved operations for Ecuador totalling US$ 3,023 million, which represents an average of US$ 605 million per annum, or 15% of the total approved during this period. Disbursements were US$ 1,723 million (15% of total disbursements), for an annual average of US$ 345 million.

DURING 2006, APPROVALS FOR ECUADOR amounted to US$ 1,024 million, representing 19% of the year's total, while disbursements were US$ 504 million (17% of the total). By the close, the country's total portfolio* was US$ 1,372 million, representing 15% of the total portfolio.

In all, US$ 843 million was approved for operations involving sovereign risk, among them projects relating to transport and road development. US$ 181 million was assigned to non-sovereign risk operations, embracing corporate projects, micro-financing bodies and credit lines to banking institutions which in turn channelled the resources to small and medium-sized enterprises.

Eleven per cent of the total (US$ 117.5 million) was devoted to economic infrastructure projects, through the approval of resources for major road and transportation repair and improvement projects. Several cities benefited from resources to improve urban transport networks, resulting in lower costs and journey times and a significant increase in efficiency.

In the area of social development, CAF contributed resources totalling US$ 200 million to priority social programs relating to human development and poverty reduction. These included initiatives aimed at contributing to the fulfilment of the country's commitments under the UN Millennium Goals program, via increased efficiency in program execution and greater equity in social investment. Particular attention was paid to supporting the universalization of health-care, and resources were also committed to improving the quality of public education.

In the areas of competitiveness, productive sectors and MSMEs, operations totalling US$ 74 million were approved for investment project financing, working capital and trade lines, including several corporate loans and resources provided to regulated micro-financial institutions.

In addition, in the area of financial systems and capital markets, US$ 107 million was approved in credit lines to finance operations through banking institutions, mainly for the benefit of MSMEs.

With regard to macroeconomic stability and structural reform, US$ 525 was approved for initiatives to improve fiscal sustainability and execution of public spending, enhance public debt management and assist in the implementation of a number of strategies to strengthen the logistics platform relating to the country's insertion into the global economy.

Other contributions to the sustainable development of Ecuador

In 2006 operations totalling approximately US$ 1 million were approved via CAF's Technical Assistance Fund, Human Development Fund and Special Ecuador Fund. These were focussed primarily on the areas of competitiveness, governance and social responsibility.

In the area of governance, the Governance and Political Management Program, carried out jointly with the *Universidad Católica* de Quito and the *Universidad Católica de Guayaquil*, merits special mention. By the end of 2006, 783 students had graduated from the program, and Ecuador is the

In the framework of the Guayaquil Road Program, CAF has financed activities aimed at reversing environmental damage to the Estero Salado. CAF funds have facilitated the development of infrastructure such as the Salado waterfront and resulting improvements to the quality of life of those living on its banks.

* Includes the portfolio managed and administered by CAF, as well as operations linked to the Partial Credit Guarantees (PCG) given by the Institution.

Approvals to Ecuador. 2006

(in millions of US$)

Client/Executor	Operation	Objective	Amount	Term years	Project cost
Republic of Ecuador / Municipio del Distrito Metropolitano de Quito	Road Infrastructure Program of the Quito's Mass Transportation System	Improve Quito's road infrastructure conditions, as well as massive transportation conditions	50	12	71
Republic of Ecuador/ Ministerio de Economía y Finanzas	Program to Strengthen Public Credit Administration and the Quality of Expenditures	Support National Government efforts in the execution of a multiple action agenda to ensure and strengthen public credit administration	250	15	n.a.
Republic of Ecuador/ Ministerio de Obras Públicas (MOP)	Project Complementary and connected Works to the Rafael Mendoza Aviles Bridge	Promote sustainable development of the Guayaquil–Puntilla–Durán Corridor, and improve communication with the rest of the country	43	10	148
Republic of Ecuador/ Municipalidad de Guayaquil	Road Inter-Exchanger Program, Access Roads and General Sub-Urban Works in Guayaquil	Support road infrastructure plans undertaken by the Guayaquil municipality, to improve traffic conditions	24.5	10	38
Republic of Ecuador/ Ministerio de Economía y Finanzas	Contingent credit line	Support National Government efforts in the execution of the Capital Preservation Project via public debt amortization, debt re-engineering and social sustainability 2006-2010	275	18	n.a.
Republic of Ecuador/ Ministerio de Economía y Finanzas	Second Program of Social Investment Insurance in Ecuador	Contribute to social investment policies in the health and education areas	200	18	660
Various private sector clients	Miscellaneous	Finance foreign trade operations, working capital and investments in capital goods	181	Various	65
Various beneficiaries	Other operations with cooperation resources	Contribute to the country's sustainable development	1	n.a.	n.a.
Total			**1,024.5**		**982**

* Includes only the cost of investment projects financed by the private sector.
n.a. not applicable

first country to set up a post-graduate course in Political Management and Governance. The course has been approved by the country's educational authorities, under an agreement signed with the *Universidad Católica Santiago de Guayaquil*.

The Efficient and Transparent Municipalities Program focussed, as in previous years, on the issues of electronic government and surveying, as well as registration training and project planning.

Specific operations in the area of governance, such as the National Foreign Policy Plan and the strengthening of the Banking Superintendency's national social security directorate, were also assisted.

In the competitiveness arena, the Competitiveness Program (PAC) showed progress during 2006, offering support to projects related to cluster development and commercial and productive capabilities, entrepreneurial capacity, access to financing and improvements in institutions that support the productive sector of the economy. In particular, various projects were approved in the wood and furniture, manufacturing and automobile sectors in Pichincha, Azua and Tungurahua provinces, aimed at developing a culture of productivity among entrepreneurs while simultaneously enhancing capabilities within each enterprise.

The design and implementation of the competitive intelligence service for exports and investments in Ecuador showed significant progress, serving as a commercial information platform for exporters, importers and investors to promote international market access for their products and enhance investment opportunities. The aim is to contribute to the institutional development of the service industries, support the productive sector of the economy and facilitate credit access.

With regard to social responsibility, in 2006 the Social Action for Music program made good progress in both the orchestral and choral chapters, through choral training in Quito and the holding of a number of workshops in Guayaquil which benefited 35 directors and facilitators, along with 1,400 children and young people. The *Fe y Alegría* alliance provided training to children and teachers in Solanda, El Camal, La Colmena and Pio XIII in Quito and in south Guayaquil. In the orchestra chapter, two workshops were held and new alliances were forged in Guayaquil, resulting in the entry of 100 new pupils.

The second phase of the sports training project at six well-known sports schools in Quito, Esmeraldas and Guayaquil, in alliance with *Banco Solidario*, came to an end, after benefiting more than 500,000 children and training a score of teachers.

In the area of local opportunities, the second phase of the Randimpak project, implemented by FECD and Fundamif, also made progress, enhancing the organizational abilities of more than 5,000 indigenous women workers in the Chimborazo region with a view to improving their living conditions, production and trading systems and providing more and better access to basic health and education services and training for their communities. Through an alliance with Repsol YPF Ecuador, four similar projects were co-financed: with the *Casa Campesina* of Cayambe to improve productivity, trading and access to credit for the communities of *Cantón Cayambe*; with the *Populorum Progressio* Ecuadorean Fund, in the Pedro Carbo canton, where a system of local production, commerce and financing is being implemented; with the *Hogar de Cristo* Housing Corporation to promote micro-business management, community organization and access to credit for 550 poor families in Guayaquil; and with the Integral Development for the Future Foundation to strengthen the productive capacity and civic participation of the women of the cantons of Tulcán, San Pedro de Huaca and Ibarra.

From top to bottom:
Guayaquil's road program includes the enhancement, construction and recovery of Guayaquil's main and secondary roads, as well as traffic distributors and bridges.

With the aim of increasing the coverage of the Social Action Program for Music in Ecuador, CAF forged a strategic alliance with *Fe y Alegría* to develop and implement the *Voces Unidas con Fe y Alegría*.

The Strengthening of Community Tourism Intiatives project is among those implemented by the ESQUEL Foundation with the support of CAF.

Peru

During the past five years (2002-2006) CAF has approved operations for Peru totalling US$ 3,092 million, representing an annual average of US$ 618 million, or 15% of the total approved during the period. Disbursements amounted to US$ 1,885 million (17% of the total), or US$ 377 million per annum.

IN 2006, TOTAL APPROVALS FOR PERU AMOUNTED TO US$ 941 million, which represented 17% of the overall figure for the year, while disbursements reached US$ 484 million (16% of the total). At the close, the country's portfolio* was US$ 1,807 million, or 20% of the total portfolio.

A total of US$ 726 million was assigned to sovereign-risk operations, including road development plans. Resources amounting to US$ 213 million were allocated to non-sovereign risk investment initiatives in the financial and micro-enterprise categories among others.

Thirty-four per cent of the total approved was assigned to economic infrastructure, especially road schemes designed to increase national and regional integration, promote development and provide new business and job opportunities in the interior of the country.

Peru continued to promote Public-Private Participations (PPP) in public works projects, such as the US$ 211 million Southern Inter-Oceanic Road Corridor (Sections 2 and 3), which also benefited from a US$90 million partial credit guarantee. In addition to their positive impact at local level, these schemes bring national benefits by opening up fresh areas to sustainable agriculture and stock-raising, as well as linking different production centers at an international level.

US$15 million was authorized for the Integral Rehabilitation of the *Huancayo–Huancavelica* Railway, a vital transport link for the inhabitants of the Peruvian sierra and a further demonstration of CAF's commitment to sustainable development, integration and social inclusion.

Under the heading of social and environmental development a number of important infrastructural projects were complemented in 2006 with environmental programs such as the US$10 million scheme to mitigate possible negative consequences of the various road corridors on the populations of their areas of influence.

Under competitiveness, productive sectors and MSMEs, US$ 39 million was approved for investment finance for capital goods in the private sector, to be delivered in the form of corporate loans.

Also worthy of note is the approval of US$ 175 million in credit lines to a number of banking institutions for the financing of investment projects, working capital and trade lines, mainly for the MSME sector.

In the area of macroeconomic stability and structural reforms, US$ 400 million was approved for the development –in conjunction with government– of projects relating to fiscal management, quality of expenditure and debt management and restructuring, as well as contributions to international competitiveness strategies and countries' economic programs. In 2006, Peru received support for programs relating to debt management, aimed at improving the country's public debt profile and freeing up budgetary resources to finance the public investment agenda by reducing the costs and market risks of loans.

The Peruvian Asparagus and Vegetable Institute (IPEH) and the Export Promotion Commission (PROMPEX) have succeeded in boosting the paprika industry and marketing the product internationally.

* Includes the portfolio managed and administered by CAF, as well as operations linked to the partial credit guarantees (PCG) given by the Institution.

Operations approved to Peru. 2006

(in millions of US$)

Client/Executor	Operation	Objective	Amount	Term years	Project cost
Republic of Peru / Ministerio de Economía y Finanzas	Contingent credit line	Support the Republic of Peru In the execution of the Annual Public Debt Program and Administration 2006-2008	400	18	n.a.
La Concesionaria Interoceánica Sur–Tramo 2 y 3, S.A.	Partial credit guarantee	Promote infrastructure projects required for the country's development, decentralization, territory balance and social equity	211	Various	756
Intersur Concesiones, S.A.	Partial credit guarantee	Promote infrastructure projects required for the country's development, decentralization, territory balance and social equity	90	20	323
Republic of Peru / Instituto Nacional de Recursos Naturales (Inrena)	Social and Environmental program of the Direct Impacts of the Southern Interoceanic corridor (Trenches 2, 3 y 4)	Promote sustainable development, improving the quality of living of both the population and communities of the Southern Interoceanic Road Corridor (trenches 2, 3 and 4)	10	12	18
Republic of Peru	Integrated Renovation of the Huancallo–Huancavelica Program	Renovate train infrastructure	15	15	19
Various private enterprise clients	Commercial and working capital financing	Finance foreign trade operations, working capital and capital investments	214	Various	*
Various beneficiaries	Operations with cooperation resources	Contribute to the country's sustainable development	1	n.a.	n.a.
Total			**941**		**1,116**

*Credit lines
n.a. not applicable

Other contributions to sustainable development in Peru

Approvals during 2006 using non-reimbursable cooperation funds totalled US$ 1 million, which came from the Technical Assistance, Human Development and Spanish Cooperation Funds. These operations benefited both the public and private sectors and were distributed among competitiveness, governance and social responsibility categories.

Under governance, CAF continued to be associated with the Governance and Political Management Program run in association with the George Washington University and the *Universidad Pontificia Católica del Perú*. By the end of 2006, 1,024 participants had graduated from the program since its inception in 2003. Their training focuses on a vision of comprehensive development and the consolidation of the democratic process through skills and tools relating to the area of public-sector management.

Another initiative was the first version of the Leadership for Transformation Program, carried out in association with the Institute of Governance of the *Universidad San Martín de Porres* and other institutions such as the IDESI. The program's aim is to train natural leaders in national vision and civic and democratic values, to enable them to exercise their leadership with responsibility and understanding of the situation of the country. In its first phase, the program selected and trained 485 natural leaders in 12 regional centers, covering 241 municipalities across the country.

Under the heading of competitiveness, the *Competitiveness Program (PAC)* continued to back the development of productive associations with two new private sector projects which have received endorsement and been given priority under the development plans of the Ministry of Foreign Trade and Tourism: (i) the strengthening of the paprika industry with a view to consolidating the product's positioning in the international market, and (ii) the Link Peru Hotels alliance, the first alliance of independent hotels throughout the country. Support continued to be given, in association with the Ministry of Production, to the Producers' Associations Innovation Projects Fund. The ministry selected the seven finalists whose projects began to be implemented at the end of 2006.

From top to bottom:
The president of the Republic of Peru, Alan Garcia, is saluted by CAF's executive president, Enrique Garcia, on the day of his inauguration.

El Callao Port adopted the Seal of Guarantee promoted by CAF through its First-Class Port Program, part of its physical integration agenda.

CAF approved US$ 14.89 million to support the execution of the Integrated Renovation of the Huancallo–Huancavelica Train, better known as *Tren Macho*.

CAF continued to support projects designed to strengthen both social responsibility and human capital. The Social Action for Music Program created Peru's first youth orchestra, and two CAI workshops were held for 200 children and young people from Lima, Arequipa, Huancayo, Trujillo, Tacna, El Puno, Guanaco Ica and Cuzco. The cycle concluded with the concert A Song for Peru.

The second phase of the Sports Training Program, aimed at the Afro-Peruvian population of the Chincha area, was carried out in alliance with the private sector and benefited 500 children and young people.

Under the heading of support for the creation of local opportunities, the consolidation and extension of the Towns Network began in the Province of Huaura. Support continued to be given, in association with local governments, to 2,500 women in poor, rural districts of Puno, San Martín and Ucayali to assist them in obtaining jobs by training them in production, commercialization, credit access and planning. Finally, under the Basic Skills and Restoration of Heritage Training Program, carried out in conjunction with the Spanish International Cooperation Agency along with local state and municipal authorities, 200 underprivileged youths were trained at workshops in Lima, Arequipa and Cusco in traditional construction trades and techniques in order for them both to contribute to the restoration of their regions' heritage and join the labor market.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Venezuela

During the last five-year period (2002-2006) CAF has approved operations for Venezuela totalling US$3,587 million – an average of US$717 million per annum, or 18% of total approvals for the period. Disbursements were US$ 2,011 million (18% of the total), representing an average annual figure of US$ 402 million.

IN 2006, TOTAL APPROVALS FOR VENEZUELA were US$ 842 million, or 15% of the total, while disbursements amounted to US$ 845 million (28% of the total). At the close of the year, the country's total portfolio* amounted to US$ 1,725 million, representing 19% of the total portfolio.

Sovereign-risk operations, in accordance with the priorities established by CAF, totalled US$ 800 million and were focused particularly on the development of transport infrastructure, with the aim not only of enhancing the country's productivity and competitiveness but also of improving the coverage of vital public services for the least favored communities. Resources totalling US$ 40 million were approved for non-sovereign risk operations in the financial sector.

US$ 400 million, or 48% of the funds approved, were devoted to economic infrastructure, and in particular to the construction of transport infrastructure in order to improve connections between urban centers in the framework of the Public Mass Transit Investment Program, thereby improving not only integration at local level but also the quality of life in the regions concerned.

The Bolivarian Republic of Venezuela also received financing for social and environmental development, in the form of US$ 400 million to assist the national government's investment plan provide major public services to the population. The government's request for assistance in financing the Habitat Integral Plan, whose aim is to provide housing and neighbourhood improvements to the population, was met.

Under the heading of financial systems and capital markets, US$40 million in lines of credit was provided to finance operations via intermediaries aimed particularly at the small and medium business sector.

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Other contributions to sustainable development in Venezuela

CAF approved non-reimbursable operations using cooperation funds for a total of US$ 2 million, to support a number of activities in the area of governance and competitiveness which underline the Institution's commitment to social responsibility.

CAF continued to support the Governance and Political Management Program in alliance with the George Washington University and the *Universidad Católica Andrés Bello*. By the end of 2006, 426 students had graduated from the program, which provides specialised training in public-sector management skills. The Institution also gave ongoing support to the Leaders for Transformation Program, under which natural leaders have been trained to exercise active citizenship.

The Efficient and Transparent Municipalities Program *(MuNet)* made further progress in registration, surveying, electronic government and filing. The Integrated Automation of the Registration System at the *Juan Antonio Sotillo* municipality is an example of the program's success: here, the Urban Land Committee (CUT) took part in the real estate census process, minimizing filing costs and initiating an automatic filing and registration process which will lead to a more efficient administration.

With the inauguration of the Ezequiel Zamora Train System, trench Tuy Medio–Caracas, the train system restarts in Venezuela, to attend a daily demand of 86 thousand passengers.

* Includes the portfolio managed and administered by CAF, as well as operations linked to the partial credit guarantees (PCG) given by the Institution.

Operations approved to Venezuela. 2006

(in millions of US$)

Client/Executor	Operation	Objective	Amount	Term years	Project cost
República Bolivariana de Venezuela / Ministerio de Finanzas	Integrated Habitat Program	Support the National Government Housing Investment Plan to improve the quality of living of the population	400	10	4,650
República Bolivariana de Venezuela / Ministerio de Finanzas	Public Investment in Mass Transportation Program	Support the National Government Mass Transportation Plan to provide rapid and efficient service to the population at various urban centers	400	10	3,579
Various private enterprise clients	Commercial, working capital and investment financing	Finance foreign trade operations, working capital and capital investments in the productive sectors of the economy	40	Various	n.a.*
Various beneficiaries	Operations with cooperation resources	Contribute to the country's sustainable development	2	n.a.	n.a.
Total			**842**		**8,229**

* Credit lines
n.a. not applicable

In the area of competitiveness, the Venezuelan Information Technology Export and Communication Program (Exportic), an element of the Competitiveness Program (PAC) came to an end. The program was supported by the *Banco de Comercio Exterior*, Conapri and the Ministry of Light Industry and Commerce, and provided training to 91 Venezuelan enterprises to facilitate their access to international markets.

The third phase of the PAC continued with the implementation of the Support System for Enterprise Creation, in alliance with *Fundación Ideas*, McKinsey & Company and the *Instituto de Estudios Superiores de Administración*. The aim is to design an enterprise creation course for use by a number of universities across the country, facilitating links between "incubators", risk capital funds and universities.

The PAC also devoted resources to the development of the National Tourism Quality Program in Venezuela, in alliance with the Ministry of Tourism (Mintur), and promoted the Venezuelan Supplier and Distributor Development Program in alliance with the National Chamber of Industry (Conindustria).

In the area of social responsibility, CAF moved to strengthen the Social Action for Music Program. Training in choral activities was provided in Caracas, Barquisimeto, Maracay, Merida and Coro, and conducting and choral workshops were held in Ciudad Bolívar and Carúpano.

In relation to Skills Training and Recovery of Heritage, it is worth noting the training provided to young people in La Guaira through the *Escuela Taller* workshop devised by the Spanish International Cooperation Agency –with which a regional agreement was signed– and the Vargas mayor's office. This marked the beginning of a third phase, with increased support from CAF. A similar project was also initiated in the *Escuela Taller* in Coro, which is giving training to 90 young people in six different crafts. A technical training and employment opportunities project (Superatec) was also initiated, under which 600 young people, along with some parents and teachers, are to be trained, of whom 80%

From top to bottom:
The Habitat Program supports the Government of the Bolivarian Republic of Venezuela's investment plan in the area of habitat and housing development.

In Lara state CAF supports the Yacambú-Quíbor Basin Water Resources Integral Management Program.

The new Caruachi dam, a project developed by the Edelca hydro-electric company, close to the River Caroní in northern Bolívar state, Venezuela.

have obtained jobs. Another project which received support is the Revenga Laboratory of Dreams, which aims to recover young people at risk of embarking on a life of crime, by teaching them rugby and giving them skills training –at the People's Builder's Workshop– that will enable them to obtain jobs.

The Paria Project Foundation, meanwhile, entered its second phase, aimed at consolidating cacao production and commercialization capacities, as well as providing access to health and education services and setting up community savings and investment schemes. Jointly with the Rural Finance Foundation, CAF is promoting a model of financial self-help and local cooperation, through an internet-based platform of regulation and transfer, intended to benefit some 13,000 people.

Other shareholder countries and multinational operations

DURING 1996-2006 CAF APPROVED operations totalling US$ 4,865 million for *Series C* shareholder countries, and disbursements for the same period totalled US$ 487 million. At the end of 2006 the total loan and investment portfolio* corresponding to these countries stood at US$ 1,102 million, or 12% of the Institution's total portfolio.

This performance has allowed CAF to strengthen its coordinating role in Latin America and to continue to expand its institutional and financial presence in the region. At the same time, the links these countries –along with the other shareholder nations– maintain with the Institution have grown stronger. In this regard the achievement of eligibility by the Dominican Republic, which this year paid its first tranche of shareholder capital, thereby expanding CAF's scope for regional action, is worthy of note.

From top to bottom:
The second vice-president of the government and Economy and Finance Minister of the Kingdom of Spain, Pedro Solbes, receives CAF executive president Enrique García for talks on a number of bilateral issues.

The president of the Republic of Uruguay, Tabaré Vazquez, was received by Enrique García, executive president of CAF, during his working visit to the institution's headquarters in Caracas.

The president of the Republic of Paraguay, Nicanor Duarte, greets Enrique García, executive president of CAF, during a visit to the Corporation's Caracas headquarters.

Relations between CAF and the *Series C* shareholder countries were further fortified in 2006 by a number of programming missions and visits by the Institution's Executive President to South America (Argentina, Brazil, Paraguay and Uruguay), Central America (Costa Rica) and Panama. These missions were aimed at identifying and agreeing with their governments CAF's medium-term action programs.

In addition to the above, the Institution's activities in the *Series C* shareholder countries rose to new heights with approvals totalling US$ 1,316 million, disbursements of US$ 330 million and a portfolio of US$ 1,102 million.

Among the operations approved in the course of the year were important programs and projects in Argentina, Brazil, Costa Rica, Spain, Mexico, Panama, Paraguay and Uruguay, the details of which follow.

Argentina received financing for the Comahue-Cuyo (US$ 200 million) and Rincón Santa María–Rodríguez Electrical Interconnection schemes, whose aim is to meet the high-voltage electricity distribution needs outlined in the Federal Transport Plan. Likewise, CAF approved a US$ 80 million loan for the Pehuenche Border Crossing Refurbishment and Paving project, which is intended to improve a strategic trans-Andean route between Argentina and Chile.

Brazil received US$ 272 million for a number of programs: (i) US$ 200 million for the Program in Support of Brazilian Municipal Authorities (PRAM), which provides at least five eligible municipal governments in Brazil with partial financing through long-term loans for projects rated as viable under pre-established CAF criteria, and mainly relating to economic and social infrastructure, basic services and the environment; (ii) US$ 32.6 million for the Santa Catarina state Regional Integration Project–Phase 1, whose aim is to promote state-wide and regional integration, consolidate socio-economic and tourism developments, fortify territorial reorganization and render viable the private-sector port infrastructure investments currently being undertaken in the north-east region of Santa Catarina; (iii) US$21.4 million for the Rondonia state Road Development Program–Phase II, whose aim is to create opportunities for socio-economic development in the sub-regions with the greatest productive potential; (iv) US$ 18 million for the *São Jose do Rio Preto* Urban Infrastructure and Drainage Systems Program, intended to resolve structural defects in flood-prone sites, improving road and drainage infrastructure in the city, as well as the quality of services for outlying districts. The Brazilian private sector also received the financial support of CAF, with the approval of US$ 307 million in corporate loans for infrastructure projects, and credit facilities for a number of financial institutions, including financial backing for Brazil's trade with other CAF shareholder countries. Approvals included a US$ 100 million loan to the

* Includes the portfolio managed and administered by CAF, and PCG granted by the Institution.

From top to bottom:
CAF has contributed US$ 35 million to the La Picasa Railway Viaduct project in Argentina.

In June 2006 the Andean Choral Voices workshop (VAC) was held in São Paulo, Brazil, as part of the expansion of the choral chapter to the shanty-towns of São Paulo.

Empresa Brasileira de Telecomunicaciones S.A. (Embratel), structured according to the A/B mode, which will partially finance the company's telecommunications investment plan.

The Institution approved a US$20 million, long-term corporate loan for Costa Rica, which will assist expansion plans on the part of the *Refinadora Costarricense de Petróleo (Recope)*. Costa Rica's *Banco Improsa* received a US$ 5 million credit facility for small and medium-sized companies.

CAF approved a US$ 10 million credit line to enable the Banco Compartamos, S.A. of **Mexico** to finance small and medium-sized companies.

For **Panama** CAF approved the following operations: (i) US$ 52.9 million for a Mass Transit System in Panama City, aimed at reducing congestion and journey times, as well as accidents and contamination, and providing equal access to transportation for the whole population; and (ii) a US$ 25 million credit line for the Banco Latinoamericano de Exportaciones, S.A. (BLADEX) aimed at foreign trade finance, working capital and investment projects.

In **Paraguay** the Institution approved a US$ 2.5 million credit line for the Banco Regional, S.A., to finance the country's small and medium-sized businesses.

And in **Uruguay** CAF approved US$ 20 million for the State Infrastructure Improvement Project, aimed at improving and modernizing government logistics in the framework of institutional reforms intended to increase the efficiency of the public administration.

Other contributions to sustainable development and multinational operations

In 2006 CAF approved operations worth approximately US$ 9 million for other shareholder countries, such as Argentina, Brazil, Costa Rica, Panama and Paraguay, as well as multinational and regional operations, all of which corresponded to the Institution's strategic focus on competitiveness, integration, social development, governance, micro-finance, culture, community development and the environment.

In the field of governance, it is worth noting the support given to the International Congress on Reform of the State and the Public Administration; the Latin American Conference: Economic and Political Challenges; the Most/Unesco 2006 Second Regional Summer School on development policies and social management; support for the strengthening of democracy, institutionality and international integration; the Improvement of Communications Media Program; the Governance and Political Management Program run jointly with the George Washington University and the Seminar on Democracy and Market Economy in Latin America.

Multinational and regional projects and operations of other shareholder countries were attended with cooperation resources from the Technical Assistance Fund, the Human Development Fund, and the Spanish Consulting Fund. Among the multinational projects, it is worth mentioning those related to integration such as the Andean Guarantee System, the Ibero-American Business Forum, support to the Reflection and Analysis Group of the Political Situation in the Hemisphere and the South American Business Macro Rounds.

With respect to **Spain**, during 2006 CAF subscribed cooperation agreements with the Secretary of Finance of that country, and with the Foreign Trade Institute (ICEX), the Remote Education

The Rincón Santa María–Rodríguez electric power line will facilitate an increase in the energy trade among Argentina, Brazil and Uruguay.

Main approvals to Series C shareholder countries and Multi-National Operations. 2006

(in millions of US$)

Country/Client/Executor	Operation	Objective	Amount	Term years	Project cost
Argentina			**580**		**1,186**
Republic of Argentina/ Dirección Nacional de Vialidad	Renovation and pavement of the Pehuenche International Passage	Develop road infrastructure of the Trans-Andean road passage, bordering Argentina and Chile	80	15	149
Republic of Argentina/ Ministerio de Planificación Federal	Power Connection Comahue–Cuyo	Attend the enhancement needs of the electric power transfer system of the Federal Transportation Plan	200	15	414
Republic of Argentina/ Ministerio de Planificación Federal	Power Connection Santa María–Rodríguez	Attend the increasing electric transfer needs of the Federal Transportation Plan in 500 kV	300	15	623
Brazil			**579**		**448**
Rondonia State/ Departamento de Estradas de Rodagem e Transportes del estado de Rondonia	Road Development Program Phase II	Create social development opportunities in sub-regions with high production potential	21	12	47
Municipio São Jose do Rio Preto/ Secretaría Municipal de Obras	Urban Infrastructure and Drainage System Program in Sãn Jose do Rio Preto	Eliminate structural deficiencies in flood critical points, improving road infrastructure and drainage; and improve service quality in surrounding areas	18	12	35
Empresa Brasileira de Telecomunicaciones (Embratel)	Structured A/B loan	Improve and enhance networks, data and internet technology, and other telecommunication assets	100	5	666
Estado de Santa Catarina / Departamento Estadal de Infraestructura	Regional Integration Program Phase I	Promote interstate and regional integration, consolidate social and economic development, tourism, and strengthen territory organization	33	15	66
Municipios de la República Federativa de Brasil	Municipal Government Support Program–Brazil	Improve transportation and road infrastructure service quality; urban drainage; construction and expansion of water and sewage supply systems; housing, education and health of eligible municipalities	200	10	300
Various clients	Financing commercial, working capital and investment projects	Finance foreign trade operations, working capital and investments	207	Various	n.a.
Costa Rica			**25**		**102**
Refinadora Costarricense de Petróleo S.A.	Limon–La Garita poliduct-Phase III	Partially finance the project Limon-La Garita poliduct-Phase III	20	12	102
Various clients	Financing commercial, working capital and investment projects	Finance foreign trade operations, working capital and investments	5	Various	n.a.
Mexico			**10**		**0**
Various clients	Financing commercial, working capital and investment projects	Finance foreign trade operations, working capital and investments	10	Various	n.a.
Panama			**53**		**86**
República de Panamá / Autoridad de Tránsito y Transporte Terrestre	Mass Transportation System Panama City	Reduce traffic and offer rapid access, reduce accidents and harmful emissions	53	12	86
Paraguay			**3**		
Various clients	Financing commercial, working capital and investment projects	Finance foreign trade operations, working capital and investments	3	Various	n.a.*
Uruguay			**20**		**35.4**
Corporación Nacional para el Desarrollo	Infrastructure improvement program	Improve the state's infrastructure	20	4	35.4
Multi-National			**46**		**0**
Various clients	Investment funds and other operations	Miscellaneous	46	n.a.	0
Various clients	Operations with investment resources	Miscellaneous	0,4	n.a.	
Total			**1,316**		**2,523**

n.a. not applicable

Center for Social and Technological Development (CEDDET) and the College of Road, Channel and Port Engineering.

Likewise, CAF strengthened business relationships with Spanish banking institutions, structuring various operations in international financial markets, including bond issuances, credit lines and co-financed operations with Banco Bilbao Vizcaya Argentaria, Caja Madrid, and Banco Santander Central Hispano.

In addition, US$ 2.1 million (EU 1.6 million) were approved through the Spanish Consulting Fund to undertake initiatives related to infrastructure, institutional strength and competitiveness.

Also, CAF and the International Cooperation Spanish Agency (AECI) signed a Memorandum of Agreement to benefit the underprivileged population of Andean countries.

Management's discussion of financial condition

DURING 2006, rating agencies recognized once again CAF's superb credit quality and franchise value in the region. Fitch Ratings upgraded CAF's credit rating to "A+". In addition, *Standard & Poor's Rating Services* revised its outlook on CAF's long-term issuer credit rating to 'positive' from 'stable' leaving credit ratings unchanged ('A' for long term and 'A-1' for short-term). Finally, both *Moody's Investors Service* and *Japan Credit Rating Agency* 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 and political independence, and the continuing support of its shareholder countries.

Table Nº 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

Moreover, in 2006, CAF was reaffirmed as the most important source of multilateral financing for its member countries as shown by record levels of approvals (US$ 5.5 billion) and disbursements (US$ 3.0 billion) achieved in that year. It is worth mentioning that 96% of approvals and 69% of disbursements were directed toward medium- and long-term project financing.

CAF received US$ 206 million in new capital contributions from its shareholders in 2006. From this total, US$ 159 million were contributions received from the Andean member countries, which were made as per two simultaneous capital increase programs subscribed by these countries.

Net profits also reached a new record in 2006, totaling US$ 321 million, a 13.2% increase compared to 2005 levels, mainly attributable to an increase in international interest rates.

Bond issues in the international markets reached almost US$ 810 million in 2006. Local capital markets activity during that year included the placement of the first bond issue (since 1976) from a multilateral financial institution in Venezuela, for the equivalent of US$ 100 million in local currency. This transaction required the design of a new regulatory framework in that country, opening the Venezuelan bond market for other multilateral organizations. In addition, that same year, CAF issued its first bond in local currency in the Peruvian market for US$ 75 million. Both issues constitute the largest to date in those countries by a single non-governmental issuer. For details on the issues placed by CAF during the year, please refer to *Table N°2*.

Table Nº 2

2006 Issues in the International Markets			
Date	**Market**	**Amount in original currency of issuance (in million)**	**Equivalent in US$ million**
Bond Issuance			
May	Peruvian	PEN 248	75
June	Venezuelan	VEB 215,000	100
September	Yankee	US$ 250	250
November	Euro	EUR 300	385
	Subtotal		**810**
Short-Term Issuance Programs			
	Commercial Paper (US)	US$ 1,000	1,000
	Commercial Paper (Europe)	US$ 500	500
	Short-term Notes (Spain)	EUR 500	600
	Sub-total		**2,100**
	Total 2006		**2,910**
	Total 1993-2006		**8,723**

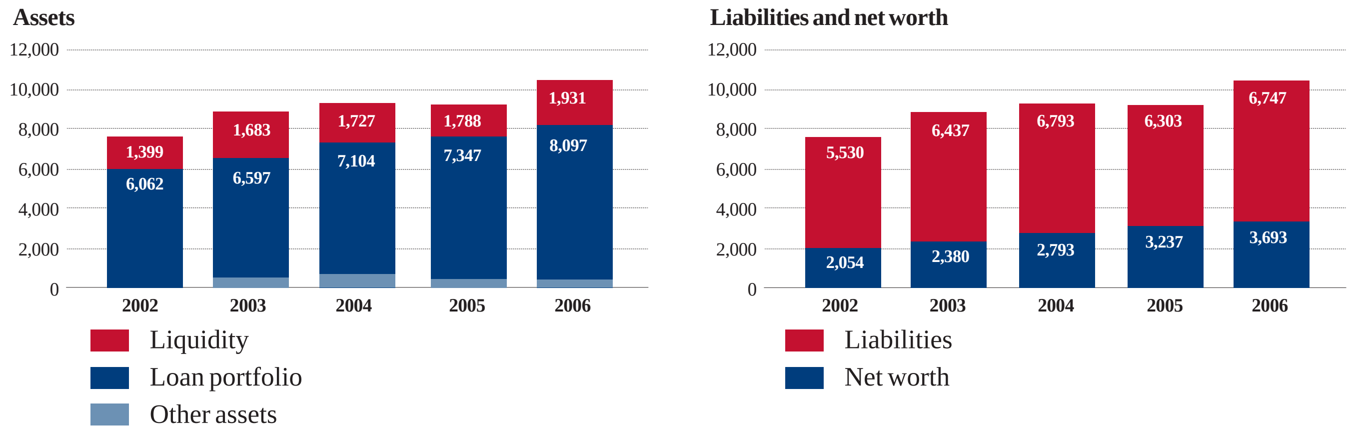
Summary of financial statements

During 2006, earning assets –liquidity and loan portfolio – grew at a rate of almost 10%. At December 31st, 2006, total assets were US$ 10.4 billion, 10.1% higher than at the end of 2005 (*Graph N°1*). This was mostly due to an increase in the loan portfolio, which reached US$ 8.1 billion or 10.2% over the amount at the end of 2005. The other major component of assets, liquidity, totaled US$ 1.9 billion, the equivalent of 18.5% of total assets and 28.6% of total borrowings.

Graph Nº 1

Balance sheet

As of December 31st (in US$ million)



Shareholders' equity was US$ 3.7 billion at the end of 2006. New capital payments from shareholders totaled US$206 million for the year. In addition, retained earnings reached US$ 321 million. Shareholders' equity represented 35.4% of total assets and 40.9% of risk-weighted assets, according to Basle Accord standards, as of 31 December 2006.

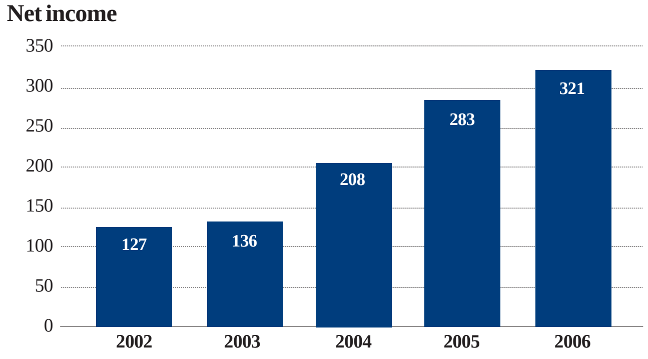
As mentioned above, net income for the year represented an increase of 13.2% compared to the previous year, reaching a record level of US$ 321 million. This outcome was primarily due to a substantial increase in international interest rates during 2006[1], which resulted in an increase in net interest margin from 3.5% in 2005 to 4.1% in 2006.

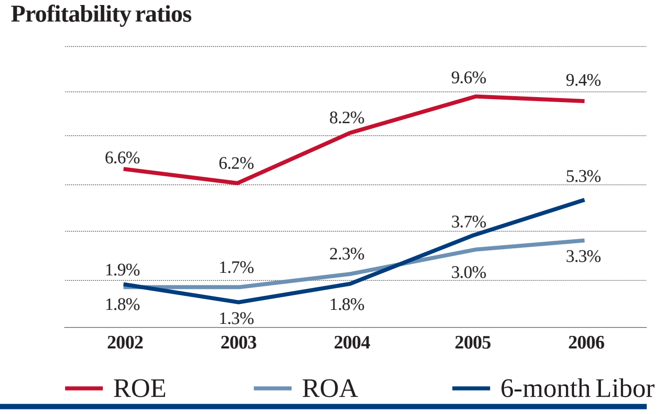
Moreover, the return on equity for the year was 9.4% which compares very favorably with the established benchmark of six-month Libor (*Graph N°2*), while the return on assets for this period was 3.3%.

Graph N° 2

Net income and profitability

For the year ended December 31st (in US$ million)





Loan portfolio

The loan portfolio was US$8.1 billion at the end of 2006, 10.2% higher than the level reached in 2005 ($7.3 billion).

The distribution of the loan portfolio continued to be skewed toward the financing of public sector projects, which represented 86.4% of the total at the end of the year. From the perspective of distribution by country, the largest exposure was Peru with 22.3% of the total loan portfolio, followed by Venezuela with 21.3%, Colombia with 20.0%, Ecuador with 16.9%, and Bolivia with 12.6%. Other non-Andean countries shared 6.9% of the total loan portfolio. CAF's policies limit exposure to any individual country to a maximum of 30% of the total loan portfolio. Consistent with its objectives, CAF's main activity is the financing of infrastructure and social development projects, which represented 44.7% and 26.5%, respectively, of the loan portfolio at the end of 2006.

From the point of view of asset quality, the loan portfolio maintained its excellent credit quality (*Table N°3*): there were no Non-performing loans and loan-loss provisions totaled US$ 189 million or 2.3% of the loan portfolio. Also, loan write-offs were US$1.1 million for the year.

Table N° 3

Asset Quality

	(in US$ million)				
	2002	2003	2004	2005	2006
Overdues	0.0	0.0	0.0	0.0	0.0
Loans in non-accrual status	29.3	10.9	20.0	1.3	0.0
Allowance for loan losses	196.3	209.8	181.8	161.6	188.6
Overdue as a percentage of loan portfolio	0.0%	0.0%	0.0%	0.0%	0.0%
Non-accrual loans as a percentage of loan portfolio	0.5%	0.2%	0.3%	0.0%	0.0%
Allowance as a percentage of loan portfolio	3.2%	3.2%	2.6%	2.2%	2.3%

1 Average six-month Libor rate increased to 5.3% for 2006 compared to 3.7% for 2005.

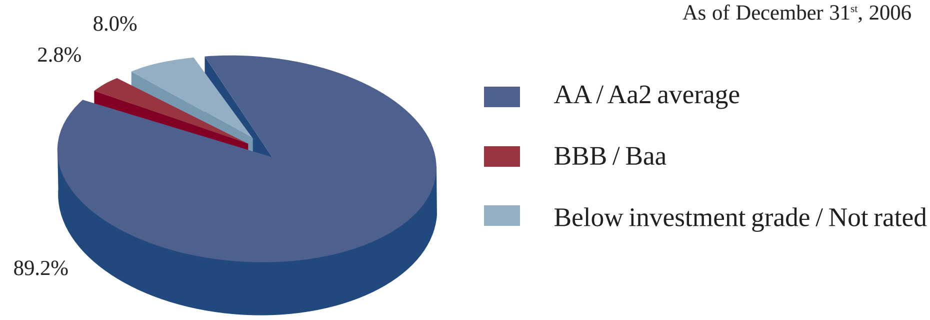
Liquid investments

At December 31st 2006, liquid investments totaled US$ 1.9 billion, which represented 18.5% of assets and 28.6% of borrowings. The investment portfolio was characterized by a short duration (an average of 0.4 years) and excellent credit quality (*Graph N°3*): 89.2% of liquid assets was rated AA/Aa2 average or better, 2.8% was rated BBB/Baa, and 8.0% was either not rated or rated below 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 investments

As of December 31st, 2006



Funding

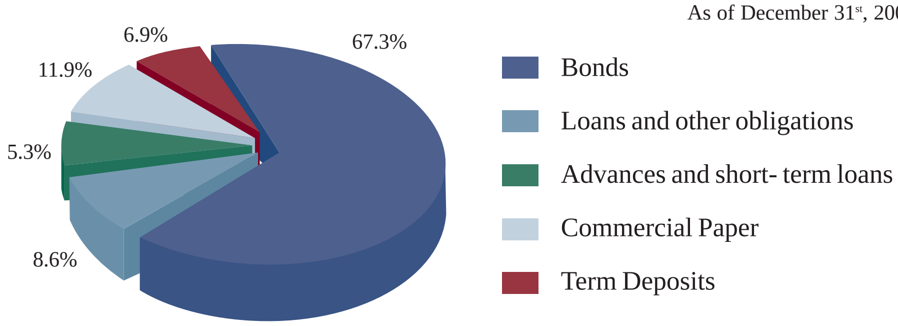
During 2006 bond issuance reached approximately US$810 million distributed among several transactions. Among them, it is worth noting CAF's first operation in the Venezuelan bond market, with a $ 100 million issue in local currency, as well as its first issue in local currency in the Peruvian market for $ 75 million. In addition, CAF was also successful in the Yankee and Euro markets, where it placed bonds for $ 250 million and EUR 300 million, respectively. Furthermore, CAF maintains an important presence in short-term markets through the continuous use of Commercial Paper Programs in the US and European markets, as well as the Spanish Short-term Note Program.

At December 31st, 2006, 86.0% of CAF's funding came from the international capital markets. Bonds represented the main source of funds with 67.3% of total funding (*Graph N°4*). In addition, 17.2% corresponded to commercial paper and short-term loans, 8.6% to medium and long-term loans and lines of credit, and 6.9% to deposits from institutions in the Andean region. CAF has long-standing relations with the most important international banks, with official institutions from around the world, and with other multilateral financial institutions.

Graph N° 4

Liabilities

As of December 31st, 2006



Capital

During 2006, CAF received new capital contributions from its shareholders for US$ 206 million. At December 31st 2006, shareholders' equity totaled US$ 3.7 billion, a 14% increase compared to the end of 2005. This increase derived from new capital contributions as well as retained earnings. As a result of the increase in shareholders' equity, capitalization ratios continue to be well within CAF's policies on this matter (*Table N°4*). As of the end of 2006, all shareholders were current in their equity obligations to CAF.

Table Nº 4

Capitalization Ratios

	2002	2003	2004	2005	2006
Gearing (Times)[1]	3.1	2.9	2.7	2.4	2.4
Leverage (Times)[2]	2.4	2.4	2.1	1.8	1.8
Capital / Risk Weighted Assets (BIS)[3]	31.3%	34.3%	36.5%	40.6%	40.9%

1 According to CAF's constitutive agreement, this exposure measure should be less than or equal to 4.0.
2 According to CAF's constitutive agreement, this indebtedness measure should be less than or equal to 3.5.
3 According to CAF's Board of Directors' policies, this level of capitalization should be greater than or equal to 30%.

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 US$. At December 31st 2006, more than 99.9% of assets and 98.4% of liabilities were denominated in US$ after swaps, and 99.2 % of assets and 98.5% of liabilities were based on six-month US$ Libor. Transactions that are not denominated in US$ and based on six-month US$ Libor are swapped into these terms. The swap book totaled US$ 3.9 billion at the end of 2006. 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 31st 2006, the average life of its assets and liabilities was 4.1 years.

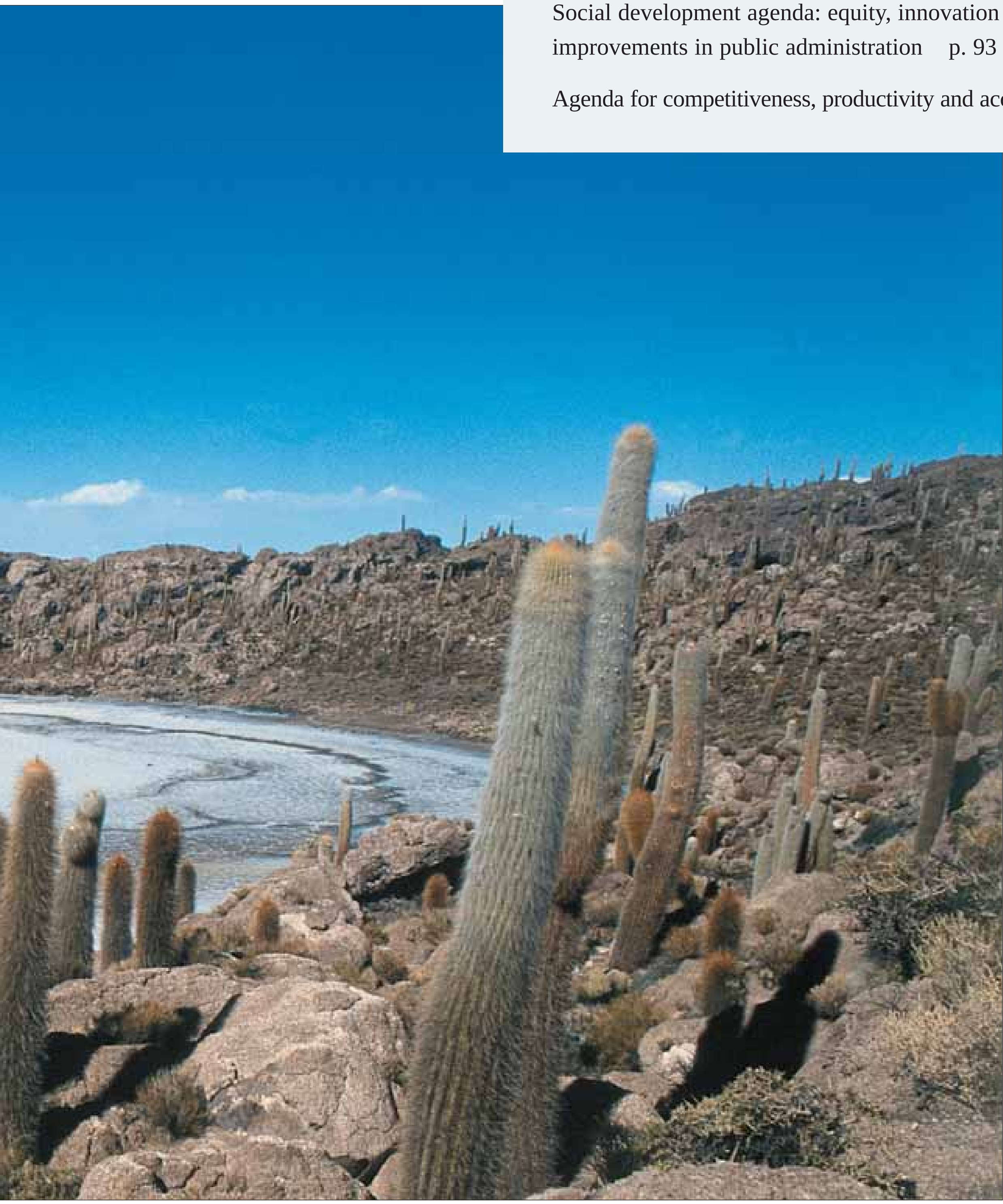
CAF's Agenda for Comprehensive Development: stability, efficiency and equity

Agenda for Comprehensive Development and special programs in support of CAF's mission p. 86

Physical integration and logistics agenda: towards regional convergence p. 86

Social development agenda: equity, innovation and improvements in public administration p. 93

Agenda for competitiveness, productivity and access to financial capital p. 98



CAF's Agenda for Comprehensive Development: stability, efficiency and equity

THE AGENDA FOR COMPREHENSIVE DEVELOPMENT proposed by CAF for its member countries targets high, sustained, sustainable, quality growth: *high* in order to begin to narrow the development gap in relation to high-income countries and to compensate for population growth; *sustained* in order to avoid the erratic and volatile growth that has taken place in recent decades and to ensure continuity of economic progress and social welfare programs; *sustainable* in its environmental and social dimensions so as to ensure the inter-generational viability of natural capital, respect cultural diversity and sustain 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 must be based on the preservation of advances achieved in macroeconomic stability, in microeconomic efficiency and in prioritizing agendas that promote greater equity and social inclusion, as well as poverty reduction. These conditions are indispensable in order to meet the challenges and collective problems of the region in a clear and coherent fashion.

Moreover, sustained economic growth implies lessening the region's current dependence on the changeable conditions of the world economy, and achieving an economic transformation that improves productivity, results in greater diversification and adds value to national competitive advantages. Greater economic growth means increasing investment in all types of capital–human, social, natural, physical, productive and financial; while growing productivity and competitiveness allow the benefits of insertion into the international economy to be realized.

In line with this integrated vision, CAF engages in a range of activities that are complementary to its financial role, and in businesses which are in line with its strategic objectives and aimed at furnishing support and greater institutional strength to its shareholders, increasing the impact, scope, usefulness and relevance of its operational management, aiding partner countries in devising and carrying out an integral development agenda and promoting the region and its potential in the wider world. These initiatives are, for the most part, implemented through the special programs which are described in the following paragraphs, and are mainly financed with resources derived from a number of funds and the Institution's technical assistance.

In 2006 CAF approved US$ 5,521 million for shareholder countries' investment needs. In addition, the Institution provided technical cooperation funds amounting to US$ 38 million for the implementation of special programs in support of its mission. These contributions consolidate CAF's role as one of the cornerstones of development financing in Latin America.

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

Physical integration and logistics agenda: towards a regional convergence

- 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: equity, innovation, and improvements in public administration

- Social investment
- Corporate Social Responsibility Program: culture and community
- Governance

Agenda for competitiveness, productivity and access to financial capital

- Competitiveness Program (PAC)
- Support for Micro, Small, and Medium-sized Enterprises (MSMEs)
- Corporate Governance Program
- Economic and Public Policy Research Program
- International Insertion Program

Environmental agenda*

- Biodiversity Program (*BioCAF*)
- Latin American Carbon and Clean Energies Program (*PLAC*$^{+e}$)
- Natural Disaster Risk Management and Prevention Program
- Cleaner Production Program (CPP)
- Program for Sustainable Development in Financial Institutions

Physical integration and logistics agenda: towards regional convergence

The Program for the Management of the Indirect Environmental and Social Impacts of the Southern Inter-Oceanic Road Corridor in Peru aims to strengthen the relevant national and regional bodies.

Infrastructure plays a key role in the development of nations. In conjunction with other factors, it contributes significantly to productivity. Thus, competitiveness, social development and sustainable economic growth are intimately related to the quality and availability of infrastructure.

Transportation infrastructure in particular is critical to the transformation of raw materials into exportable goods. In the case of industry, the quality and availability of transport services substantially reduce manufacturing production costs and play a key part in modernization and diversification processes. It is hard to imagine sophisticated industrial installations in an economy devoid of adequate infrastructure and logistics.

Access to efficient and secure sources of energy also translates into substantial improvements in productivity and profits. Modern communications and electronic information services too exercise a determining influence on timely supply of raw materials, manufacturing processes,

* CAF's sustainable environment programs are outlined in the chapter in this year's report on the Institution's environmental agenda (see pp. 23-35).

commercialization, quality of services and –especially– on the performance of the financial sector. All these elements play a decisive role in economic competitiveness.

In the present context, which is marked by growing competition and rapid globalization, the region faces the challenge of creating an integrated environment, furnished with high-quality infrastructure, linking its component countries and bringing together not only its transport and communications networks but also its energy sources and telecommunications systems.

The integration of the South American land-mass and its insertion into major world markets presents a series of difficulties arising out of natural geographical barriers. These include the Andes mountain range, the Amazon jungle and the vast system of rivers and marshes that covers much of its interior. The region is both large and relatively distant from the main global centers of consumption, its biggest cities are far apart and most of the population is concentrated in coastal areas.

The lack of adequate infrastructure to deal with the challenges that these circumstances present has left the region with poor patterns of territorial organization and a local productive apparatus that is barely competitive. The development of synergies between transport, energy and telecommunications is the key to overcoming geographical obstacles, bringing markets closer together and generating new business opportunities, in an environment of growing regulatory harmonization. A more integrated region will be better able to advance with efficiency towards the development it requires.

Throughout history, nations have understood the importance of infrastructure to development. Nonetheless, the ability of states to finance projects of this type has generally been limited, and this has led to a need for regulatory reforms that allow private enterprise to take part in construction, maintenance and management of infrastructural developments. A number of different types of public/private participation have been devised in the region to address this problem.

The South American Regional Infrastructure Integration Initiative (IIRSA) brings a regional vision to the process of physical and economic integration of the 12 South American countries, in accordance with a model of sustainable and equitable territorial development.

In addition to supporting the IIRSA since its inception in August 2000, CAF assists other integrationist initiatives by channelling economic and financial resources to both public and private sectors. The Institution contributes to the financing of strategic projects aimed at creating greater regional cohesion, such as those relating to ports, borders, cartography, the environment, private sector participation, regional studies and support for pre-investment. The First-Class Ports program, the Puebla-Panama Plan, the Cross-Borders Integration and Development program, the Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra) and GeoSur, among others, have received such assistance.

IIRSA proceeds with implementation of the agreed agenda 2005-2010

In 2006 IIRSA continued to make progress in implementing the agenda and carrying out the investment projects agreed on by member countries. On 14-15 December, the eighth Meeting of the Executive Committee was held in Quito, Ecuador. The aim of the gathering was to analyze the progress achieved during the year and to approve the 2007 action plan. The plan includes an agreement by the governments concerned to carry out further territorial analysis work on the projects already identified, and to incorporate consultative and citizen-participation mechanisms into the development planning process and the establishment of investment priorities.

The IIRSA was a product of the South American Presidents' Meeting held in August 2000 in Brasilia to discuss ways of linking different sub-regions in a bid to promote integration and internal development. In 2001 and 2002 the executive directorate and the coordination mechanisms for the technical work were set up, and there followed a phase of territorial analysis and plan-

Physical integration projects financed by CAF

*		Millions of US$ CAF	Total investment
	Andean Axis		
1	Colombia: Buenaventura–Bogotá Corridor (La Línea Tunnel)	32.0	278.6
2	Ecuador: Amazonic conection with Colombia and Peru (Troncal del Oriente road)	93.8	152.7
3	Peru: Renovation of the train Huancayo–Huancavelica	14.9	18.8
4	Venezuela: Train connection Caracas–National network	360.0	1,932.0
5	Venezuela: Support to commercial navigation in the river axis Orinoco–Apure	10.0	14.3
	Escudo Guayanés Axis		
6	Brazil: Road interconnection Venezuela–Brazil	86.0	168.0
7	Brazil: Electric power interconnection Venezuela–Brazil	86.0	210.9
8	Venezuela: Train studies Ciudad Guayana–Maturín–Estado Sucre	2.6	2.6
9	Venezuela: Train studies Ciudad Guayana (Venezuela)–Georgetown (Guyana)	0.8	0.8
	Amazonas Axis		
10	Ecuador: Central Trasandean connection	33.7	54.5
11	Ecuador: Southern Trasandean corridor	70.0	110.2
12	Perú: Northern Amazon road corridor	110.0	328.0
13	Perú: Preinvestment study-Ecuador borders	5.3	8.7
14	Perú: Central Amazon corridor (trench Tingo María–Aguaytía–Pucallpa)	3.5	13.6
	Peru–Brazil–Bolivia Axis		
15	Bolivia: Guayaramerín–Riberalta road	42.0	45.5
16	Brazil: Road integration program (estado de Rondonia)	56.4	134.2
17	Perú: Southern Interoceanic road corridor (trenches 2, 3 and 4) and private structured guarantees	504.5	1,073.5
	Interoceánico Central Axis		
18	Bolivia: Integrated road corridor Bolivia–Chile	138.9	246.0
19	Bolivia: Integrated road corridor Santa Cruz–Puerto Suárez (trenches 3, 4 and 5)	280.0	585.5
20	Bolivia: Integrated road corridor Bolivia–Argentina	314.0	642.0
21	Bolivia: Integrated road corridor Bolivia–Paraguay	60.0	182.6
22	Bolivia / Brazil: Bolivia–Brazil gasoduct	215.0	2,055.0
23	Bolivia: Transredes gasoduct	88.0	262.8
24	Perú: Integrated road corridor Bolivia–Peru	48.9	176.6
	Mercosur–Chile Axis		
25	Argentina: Brazil: Frontier Center Paso de Los Libres–Uruguaiana	10.0	10.0
26	Argentina: Buenos Aires corridor–Santiago (road variation Laguna La Picasa)	10.0	10.0
27	Argentina: Buenos Aires–Santiago corridor (train variation Laguna La Picasa)	35.0	50.0
28	Argentina: Buenos Aires–Santiago corridor (access to Paso Pehuenche, RN40 y RN145)	106.7	188.1
29	Argentina: Electric power interconnection Rincón Santa María–Rodríguez	300.0	623.0
30	Argentina: Power interconnection Comahue–Cuyo	200.0	414.0
31	Brazil: Regional integration program-Phase I (estado de Santa Catarina)	32.6	65.5
32	Uruguay: Megaconcession of the main conection road with Argentina and Brazil	25.0	136.5
33	Uruguay: Road infrastructure program Phase II	70.0	295.4
	Capricornio Axis		
34	Argentina: Pavement RN81	90.2	126.2
35	Argentina: Acceso al Paso de Jama (Argentina–Chile)	54.0	54.0
36	Argentina: Renovation studies Train Jujuy–La Quiaca	1.0	1.0
37	Bolivia: Road program Tarija–Bermejo	74.8	200.0
38	Paraguay: Renovation and pavement of integration roads RN10 y RN11 and complementary works	19.5	41.9
	Hydroroad Paraguay–Paraná Axis		
39	Improvement studies of the hydro-road operation (Argentina, Bolivia, Brazil, Paraguay y Uruguay)	0.9	1.1
	Rest	210.0	812.0
	Total	**3,896.0**	**11,726.1**

* The number assigned to each project indicates its location in the map on the opossite page.

The maps have been elaborated by CAF only for illustration purposes. Thus,borders, colors, denominations or any other information shown, do not imply any jugement of the judicial situation of any territory, nor border recognition by the Institution.

ning which lasted from 2003 to 2005. The initiative has succeeded thus far in establishing efficient joint working mechanisms among the 12 South American governments in the transport, energy and communications fields.

As a result of these efforts, South America's governments identified at the end of 2005 a portfolio of more than 350 projects, divided into 41 groups belonging to eight Integration and Development Hubs that present particular socio-economic characteristics and the productive investment areas defined by the countries concerned. The portfolio includes specific investment projects in the fields of transport, energy and telecommunications which are currently at different stages of completion.

At the Quito meeting, reports were given on the progress of each of the 84 projects in the IIRSA portfolio, 41 of which have benefited from technical and financial support from CAF. The financing given by the Institution to these projects is in the order of US$ 3,500 million, which in turn has permitted the execution of over US$ 11,000 million.

In 2006 CAF also contributed to regional modernization efforts in areas key to integration such as port operations, the easing of border-crossing processes and the development of border communities, and the integration and promotion of geographical information systems as a basic tool in territorial analysis and development planning.


The South American Regional Infrastructure Integration Initiative (IIRSA) brings a regional vision to the process of physical and economic integration of the 12 South American countries.

Responding to the needs of national authorities responsible for infrastructural development projects, in 2006 CAF placed at their disposal special funds designed to finance studies and pre-investment work, as can be seen from the table on p. 80.

In 2007 the region's governments will continue to emphasize the implementation of the priority projects in the IIRSA portfolio. For CAF itself, this means advancing further in the development of new financing formulae and mechanisms, as well as strengthening institutional capabilities in the area of preparation, evaluation, execution and supervision of infrastructural projects in those countries that participate in the Initiative. The Institution will also devote particular attention to managing the social and environmental impacts of the projects, to the development of consultative and participatory mechanisms for civil society in the planning process, and to the creation of opportunities linked to the new infrastructures.

Puebla-Panama Plan

The Puebla-Panama Plan is a Meso-American initiative to promote regional integration and social and economic development in the nine states of southern Mexico, the Central American isthmus and Colombia. It seeks to improve the quality of life of the region's inhabitants by contributing to sustained economic growth and the preservation of the environment and natural resources, through the coordinated efforts of the eight participating nations in a framework of respect for their individual sovereignty.

CAF has accompanied this integration initiative since its inception in 2001, participating in the Inter-Institutional Technical Group, created by Meso-American presidents to develop the programs and projects included in the plan. The institution has also participated in the meetings of the Plan's Executive Commission, whose members are designated by the presidents of the countries concerned, and provided financing and technical cooperation to transportation infrastructure projects in participating shareholder countries.

In 2006 Colombia became a full member of the Puebla-Panama Plan, strengthening the Plan's ties with South America and increasing CAF's opportunities to support this regional initiative.

Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra)

In March, 2006, CAF approved the creation of the Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra), with a view to financing the preparation, financial structuring and evaluation of sustainable infrastructure projects that have a major impact on regional, national or local economies and contribute in a consistent fashion to integration among the Institution's shareholder countries.

CAF assigned US$ 50 million to the Fund, to be used for:

- industry studies for infrastructure projects;
- pre-feasibility studies for investments;
- feasibility studies for final-detail engineering
- studies of the social and environmental impact of infrastructure projects;
- advisory services for structured finance;
- advisory services for bids;
- evaluation of special projects financed by CAF; and
- technical support to create and strengthen planning systems for public investments and public/private participation initiatives.

Proinfra will give priority to those projects that:

- have an impact on the integration of a given country with its neighbours;
- represent an innovation in the application of financing structures;
- contribute to developing and strengthening the country's capacity to plan, prepare or finance infrastructure projects;
- represent a priority within local or regional development plans; and
- correspond to CAF's support strategy in a given country.

During 2006 the Institution approved the application of Proinfra resources to a number of pre-investment operations, including: in Colombia, the Buga-Buenaventura and Ruta del Sol corridors and the development of a financing mechanism for minor road concessions in the Costa–Sierra System and the Regional Airports System.

First-Class Ports Program

The First-Class Ports Program is the result of collaboration over many years between CAF and the *Universidad Politécnica de Valencia* in Spain. The program, which is based on prior studies of logistics, competitiveness, marine transportation and the performance of South America's main ports, is designed to improve the quality of port services. It has adopted the *Marca de Garantía* model of port management which was successfully applied in the port of Valencia.

During the first phase of the program, five important container ports were selected: Cartagena and Buenaventura (Colombia), Guayaquil (Ecuador), El Callao (Peru) and Puerto Cabello (Venezuela). In each, a Quality Council was set up, consisting of some 30 representatives from all the port's communities and trade and professional associations. The Council analyzed the services provided by the port and designed or re-engineered critical processes.

On the basis of this redesign, the different operators and other members of the port community were informed of the requirements they needed to fulfil in order to win the right to use the *Marca de Garantía*, which is a management model offering specific service quality guarantees to the clients of each port. The *Marca* guarantees, for example, that a container will not stay in port for longer than a pre-determined maximum period. These guarantees cover services both to vessels and to cargoes.

The forthcoming creation of the Latin American Port Quality Association, a non-profit body which will act as the operator of the *Marca de Garantía* scheme in the whole region, will provide the necessary institutional framework for its sustained operation. The Association will, in turn, set up institutions in Colombia, Ecuador, Peru and Venezuela to oversee the operation in the five affiliated ports. The benefits of this process are already evident in improvements in critical procedures in each port, and it is hoped they will grow still further in the future. The reduction in transport costs is part of a process on which a number of countries in the region have embarked and which aims to improve the competitiveness of their economies –a process CAF is determined to support.

Cross-Border Integration and Development Program

With its integrated vision of the development agenda, CAF has pursued the issue of border integration from a strategic point of view, aiming to strengthen among its member countries the planning and articulation of programs and projects to improve the exploitation of shared potentialities in frontier zones in pursuit of the objectives of integration and sustainable human development.

At present, CAF is promoting more than a dozen initiatives in support of the design and implementation of Bi-national Development and Border Integration Plans and the creation of Border Integration Zones (ZIF) between member countries, along with CAN and Mercosur subregional border policies intended to stimulate territorial organization, coordinated planning and the establishment of shared priorities in terms of physical integration, economic-productive development and social and cultural growth that have a profound impact on border areas.

Projects of the Cross-Border Integration and Development Program

The maps have been elaborated by CAF only for illustration purposes. Thus,frontiers, colors, denominations or any other information shown, do not imply any jugement of the judicial situation of any territory, nor frontier recognition by this Institution.

Social development agenda: equity, innovation and improvements in public administration

The social dimension is fundamental to CAF's view of integral development. In 2006 the Institution reaffirmed and strengthened its social participation from an innovative, comprehensive and territorially-based perspective, with a view to meeting, as directly as possible, the needs of the least-privileged sectors of society.

CAF's social development agenda is based on three principles: i) support for social investment, whereby the Institution channels resources to member countries; ii) contributions to the strengthening of public bodies' administrative capacities; and iii) the development of a range of innovative activities in the field of corporate social responsibility.

Support for social investment in member countries

The importance that countries attribute today to high-impact, quality social investment, and the sustained increase in budgeting for social sectors in recent years, remain insufficient to resolve the structural problems of poverty, exclusion and social inequity which are at the heart of the demands made by the people of Latin America.

This is why CAF has defined as one of its principal strategic objectives support for the efforts that states are making in this regard, through programs and investment projects whose main function is to trigger processes and improve the quality of public administration.

In 2006 CAF approved more than US$ 900 million to finance social investment projects and programs, mainly in the areas of drinking water and basic sanitation, urban development, education and health.

The drinking water and sanitation field was particularly active during the year. The start of the Drinking Water and Basic Sanitation Program in the Colombian department of Cesar (US$ 42.5 million) marked the beginning of a sectoral strategy on the part of CAF which is aimed at promoting the regionalization of the administration and operation of drinking water and sanitation services under the coordination and leadership of local communities. This territorial approach allows municipal and regional authorities to support credit operations by using current and future income, facilitating the planning and execution of projects based on principles of equity, efficiency and sustainability. The success of the initial phase of the Cesar Regional Program has brought backing from the Colombian government and inspired national and departmental bodies to request CAF support in financing an investment plan totalling over US$ 100 million, which will benefit 24 municipalities.

The same territorial approach is being applied elsewhere in the Andean region. For Brazil, CAF approved the US$ 200 million Municipal Support Program (PRAM), which promotes good administration and sound finances in the least developed areas.

In the educational field, 2006 saw the launch of the US$ 25 million Project to Modernize Technical and Technological Education, which employs the same territorial approach to a novel form of public/private link-up. The project stimulates the creation of strategic alliances between civil society and authorities, universities and training centers and the business sector, with the aim of finding locally appropriate routes to the modernization of the supply of technical and technological education. Demand exceeded the expectations of the education ministry, and it is hoped that the project will now be fully implemented within two years.

The impact of CAF's social programs and projects

Almost 3.2 million children, young people and teachers participate in projects and programs aimed at improving the quality of education.

More than 32,000 families benefit from programs in support of rural social investment. Twenty-two thousand hectares have been brought under cultivation and 1,180 hectares rehabilitated for irrigation.

More than 722,000 families will have running water in their homes.

Almost 20,000 low-income families will obtain their own home.

More than 1.14 million children and their families benefit from immunization programs.

In the search for closer ties with direct beneficiaries, CAF approved the first credit to a departmental government not backed by the Nation. The US$ 50 million Bogotá A Big School Project seeks to improve the quality of education for more than 60,000 students by employing the investment efforts of the Colombian capital as a catalyst to attract more resources.

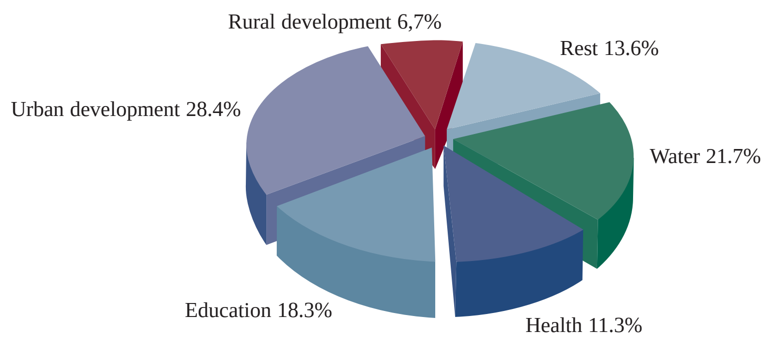
CAF has also adopted a social investment shield as a way of helping shareholder governments to meet their debt obligations without detracting from their social investment plans. The instrument gives the finance and economy ministries access to financial resources in accordance with the goals established in social budgets. The US$ 200 million Second Ecuadorean Social Investment Support Program (PRAISE II) includes a strategy to ensure the availability of resources for universalizing basic education and expanding basic health services to less privileged communities, while the Habitat Program guarantees resources for the Venezuelan government's housing projects and provides US$ 400 million for the design of a methodology to improve administrative control.

CAF also continued to contribute to the debate on social development in the region. Workshops were held to discuss the situation in rural and agricultural communities in the Andean region, with the aim of establishing an action plan for the short and medium term. Support was given to projects and programs under the International Agricultural Development Fund (FIDA), which helps rural populations in the region.

The administration of social funds has long been an area in which CAF has demonstrated its comparative advantages. The Institution took over the administration and management of the US$ 50 million Social Investment Debt Swap Fund agreed by the Kingdom of Spain and the Republic of

Approvals by sector (2004-2006)

As of December 31st, 2006



Total US$ 1,483 million

Ecuador and the Mercosur Educational Fund (FEM), following competitive bids from the main multilateral and bilateral financing bodies operating in the region. Through the former, CAF promotes social investment projects in education and the Clean Development Mechanism (CDM), with bilateral debt condoned by the Spanish government. In the case of the FEM, the Institution provides technical and financial administration for the first regional finance fund aimed at contributing to the social integration process through education.

Corporate Social Responsibility Program: culture and community

Document recovery is one of the actions promoted by CAF under its social responsibility program.

In 2006 CAF worked on social responsibility programs and projects in low-income communities, focused on music and sports instruction, training in basic skills and heritage recovery, as well as the creation of local job opportunities to improve living conditions. At present the Institution has a project portfolio involving 225 partners (39% international public sector, 20% local public sector, 20% third sector and 17% private sector), who provide not only specific knowledge of local conditions but also financial resources over and above those provided by CAF.

Hence, special emphasis was laid on the building of alliances with strategic partners who would contribute to project sustainability and to the enhancement in quantitative and qualitative terms of CAF's own performance. In this regard, it is worth noting the agreements reached with the Spanish International Cooperation Agency (ABCI), Repsol, the Codespa Foundation of Spain and Italian International Cooperation. At national level, CAF welcomed the active participation of the public sector, especially at regional and local level, which has become a key multiplying factor. The private sector has also become a facilitator and a multiplier of social responsibility initiatives in the banking industry, among entrepreneurs and within the Institution. The initiatives include music training (symphonic and choral), sports, cultural heritage and local cooperation. This last refers to the creation of community models of organization and social and productive self-help. In all of them, the underlying strategy is one of integration and articulation of the social fabric, especially among the most vulnerable groups –children, young people and women in the poorest communities, peasants and indigenous peoples– and in alliance with socially solvent actors, partners and operators, capable of multiplying the impact and contributing to the sustainability of the initiatives, whose entry vector, be it cultural, productive or social, facilitates a process of citizenship-building and the effective exercise of social, political and economic rights.

A number of sponsorships were also agreed with country offices and the diplomatic missions of shareholder countries as a contribution to the promotion, management and coverage of integration in the cultural field.

CAF's Social Action for Music Program

CAF's Social Action for Music Program, which employs musical training as a tool for social rehabilitation, was further consolidated in 2006. Its recent progress was apparent at several festivals in Guayaquil, Lima, Cochabamba, Santa Cruz de la Sierra, Medellín and Bogotá, all cities in which more pupils –especially children– have been incorporated into the program. Children from the *Fe y Alegría* schools receive vocal training at the Andean Choral Voices (VAC) workshops, and choral work has also been extended into the shanty-towns of Rio de Janeiro and São Paulo, at teacher, youth and infant level. The Andean Mobile Instrument Workshop (TIAL) took root in Medellín with the creation of an instrument factory whose first violins were declared part of the city's cultural heritage. The Andean Mobile Conservatory (CAI) continued to strengthen instrumental training and orchestral conducting in children and young people, and a new infant teaching category was set up in order to start the process of forming the Andean Child Symphony Orchestra.

Conceived as an instrument of human development, this program is permanently engaged in measuring its own social impact. As part of this process, more than 1,500 surveys were carried out among the children and young people who took part in the CAI and VAC workshops. In these, 72% of respondents said their school performance had improved, 55% said they felt more sure of themselves, 42% believed their powers of concentration were better, and 35% said they were better at relating to other people, while 27% said relations with their families had improved.

Basic skills and Heritage Recovery Training Program

This program continued to be strengthened and extended through the forging of new alliances. A regional agreement was reached with the AECI to improve the workshop-schools throughout the Andean region with basic skills and heritage recovery training. At present, CAF supports 11 schools in four countries, while three more will be incorporated in 2007. In Venezuela, the work continued, with support for the Popular Builders' School in the Revenga municipality for training former juvenile offenders in novel construction techniques, as well as the two Superatec Centers in Caracas for the training of young people in computing and technology. Both these projects are aimed at improving employment prospects for young people from marginal communities.

The success of these projects has led to a second phase in which they will be further developed, in some cases with the participation of new actors. An alliance was signed with the Ghella business group, for example, which will facilitate cooperation projects in the educational and cultural fields.

Sports Training Program

In this program CAF uses sport as a tool for social rehabilitation, in some cases with the support of local government. There is a particular focus on aspects of human development such as nutrition, and the aim is also to improve social and family relations by preventing and reducing violence. In Venezuela the Alcatraz Project was extended from sports to training in basic skills which assist participants in re-entering society. In Colombia, where the program has been extended to new parts of the country, the prevention of domestic violence is a major focus. In Ecuador and Peru CAF has also laid great emphasis on the institutional strengthening of counterparts and in Bolivia it has expanded its range of action to other parts of the country. In Uruguay CAF started a basketball and Olympic boxing project.

Local Opportunities Program

This program focused on multicultural projects in the fields of health, education, rural tourism and savings and investment culture. Among the initiatives were: the Randimpak project, involving more than 5,000 indigenous and campesino women in El Chimborazo; the *Casa Campesina de Cayambe*; VallenPaz, involving more than 700 cocoa farming families in the *Valle del Cauca*, with 16 registered organizations taking part and a second-tier organization which guarantees financing and joint commercialization of the produce; cocoa producers in Paria (access to health and educational services and savings and investment opportunities), and the Red de Pueblos in Huara – all of them sharing organizational, financial culture and commercialization aspects. The year also saw the beginning of the second stage of the Building Bridges project in Bolivia, which deals with reproductive and sexual health issues among *Aymara* and *Quechua* women; the *Sembrando Gas* initiative, which aims to improve hygiene and nutrition among the population of El Alto; and the *Proyecto Quechua* in Peru, whose objective is to bridge the digital gap in the indigenous population.

Governance Program

During 2006, CAF continued with the execution of governance programs developed regionally to create potential spaces to strengthen democratic governance in the countries, and increase the participation of citizens through dialogue and consensus. The programs, defined within four lines of action, comprise ethics and transparency of public and citizen administrations, as well as the development of human abilities to improve the execution and understanding of governance in each country. A detail of the programs is presented below.

Governance and Political Administration Program

This program has been in operation since 2001 in alliance with the George Washington University and local universities in Bolivia, Colombia, Ecuador, Peru and Venezuela. It continues to develop its training program, aimed at achieving a critical mass of trained public officials in the region. The overall objective is to offer an integral vision of the problems associated with economic and social development, and develop the capacity to materialize this vision in the form of an action program featuring technical and negotiating skills and social, economic and political viability. The program lasts from eight months to a year, and by the end of 2006 it had graduated 3,844 students in the five countries mentioned.

Leaders for Transformation (version 2) graduation ceremony in Bolivia.

Leadership for Transformation Program

Based on the fundamental principle of the balance that has to exist among the different sectors that make up a nation –public, private and civil society– the program seeks to overcome existing limitations, open the way to new generations and strengthen civic and democratic values in society. Lasting from eight months to a year, it is aimed at training natural leaders, both men and women, so that they develop the ability to fulfil the commitment to building a better future in accordance with their local conditions. Between 2002 and 2006 the program has operated in four countries –Bolivia, Colombia, Peru and Venezuela– and has trained 3,926 leaders in 658 municipalities.

Efficient and Transparent Municipalities Program (MuNet)

This program was created in 2002 to provide technical assistance and training to local governments in the Andean countries with the aim of improving their technical and administrative capacity in service provision, through the identification and transfer of best practices and successful experiences in similar socio-political contexts in the areas of surveying and electronic government. By the end of 2006, the total number of officials trained had reached 614 and the number of municipalities covered was 22 in electronic government and five in surveying.

Governance and Consensus Program

The objective of this program is to provide the public sector and citizens with the tools and methodology to build consensus and reach agreements to fulfil the needs and interests of the sectors involved. The program is implemented in four workshops: negotiation, strategic communication, leadership and persuasion, and strategic relationships with the public sector. At the end of 2006, the number of participants increased to eighty persons per country. The program will continue its implementation in Colombia, Ecuador and Venezuela.

Agenda for competitiveness, productivity and access to financial capital

CAF's Competitiveness Program aims to support shareholder countries in the design and execution of competitiveness agendas which allow them to promote sustained economic growth and improve levels of development and living conditions for their populations.

CAF's different strategic programs pursue both an academic objective, which allows the diagnosis of the main problems facing the region, and concrete actions to strengthen competitiveness and increase productivity. In addition, the Institution actively supports its shareholders in the design of international insertion strategies. In this regard, one of CAF's principal tasks, via the different programs described below, is to provide a range of public policy options which contribute to an integrated development agenda.

In 2006, research efforts under the Economic and Public Policy Research Program were focused primarily on issues of productive transformation, in line with the projects developed in the framework of the Competitiveness Program (PAC). This brought together academic activities in the field of competitiveness with concreta actions in cluster development and the promotion of entrepreneurial skills. CAF has also contributed to the dissemination of knowledge in this field through its support for a series of publications aimed at promoting better corporate governance practices in the region.

Competitiveness Program (PAC)

In 2006 the Competitiveness Program (PAC) continued to support cluster development and the strengthening of entrepreneurial capacities, as well as the dissemination of experiences and lessons learned.

With regard to cluster development, the PAC supported three initiatives. The first was an auto-part suppliers' development program. The second, the Methods for Reinventing the Logistics of your Business (MERLIN) project, is based on the development of logistics for perishable goods exports. The third initiative was aimed at developing competitive advantages in the personal grooming and cosmetics business chain. In Ecuador the PAC assisted with projects to boost the supply of exportable furniture and furnishings, as well as the development and enhancement of fisheries products with value-added for export.

In Peru, the PAC approved a project to strengthen the paprika industry, which will permit the consolidation of its position in international markets, especially by improving product quality. In Venezuela a project was approved to accelerate the development of production and distribution in a number of businesses with export potential.

In addition, in Bolivia, Peru and Venezuela, the PAC helped develop national tourism strategies, with a view to improving service quality, promoting different destinations and enhancing the industry's competitiveness.

In relation to the strengthening of entrepreneurial capabilities, the PAC concentrated its efforts on the development of a national support system for entrepreneurs, based on three Bolivian universities, whilst at the same time giving ongoing support to the Business Ideas Competition and to the formation of business "incubators" in that country. In Venezuela, it actively contributed to the design and development of the Support System for the Creation of Venezuelan Businesses, in alliance with universities and private companies. This initiative has been a key element in the enhancement of the country's entrepreneurial capacity.

As part of its dissemination work, the PAC held the *CAF Emprende* event in the city of Medellín, at which a number of issues related to enterprise promotion and the development of risk capital funds in the region were discussed. In addition, PAC's activities were outlined at the Export to Win in Mercosur seminar held by Venezuela Competitiva. Other events in which the PAC participated were, the First National Competitiveness Forum (Panama, 24 May 2006), the *International Forum on Public Policies to Support MSMEs* (Montevideo, 23-24 October 2006), the Ibero-American Seminar on MSME Competitiveness and and Internationalization (Chile, 26 October 2006) and the Central American Institutions' study mission to Andalucía (Seville, 2-5 October 2006).

Support for Micro, Small and Medium-sized Enterprises (MSMEs)

CAF promotes MSMEs development through initiatives that strengthen this important sector of the population.

CAF promotes and finances sustainable private-sector initiatives that help marginalized populations become citizens with access to basic services and to finance, health and education, as an economically efficient way of achieving economic growth with equity. The Institution has also backed the creation of innovative methods in production chains, as well as a number of activities aimed at supporting start-up and financing of micro, small and medium-sized businesses.

To achieve its aims, CAF has developed the capacity to structure operations tailored to the needs of these sectors, providing flexible and innovative solutions to attend to a wide range of needs, from capital investment and credit operations to technical cooperation. In order to achieve a successful launch and follow-up of these operations, the Institution has forged alliances with a wide variety of local institutions.

Thus, CAF has become one of the main multilateral bodies in providing finance to micro-financing institutions. This year was one of tremendous growth in this sector, both in the number and amount of approvals and in disbursements. The portfolio of current approvals closed the year at US$ 92.5 million, which represents a 49.6% increase over December 2005 (US$ 61.8 million). This growth was the result of the incorporation of new clients, an increase in certain credit lines and the authorization of guarantees for stock-market bond issues, among other factors. At present, CAF assists 36 micro-financing institutions in ten countries in the region. The incorporation of new clients in Uruguay and the growth of operations in Mexico were particularly noteworthy during the year.

It is also important to note that 2006 saw the first local currency-denominated finance operations. This is the first time CAF has granted a loan in a currency other than the dollar, a development made possible by the fact that many of the credit lines available to micro-financing institutions allow them to apply for loans denominated in the currency of their respective countries. In 2006 there was also a fresh impetus for capital investments in micro-financing institutions, with four new operations, one in Peru, one in Uruguay and two in Mexico. In relation to the dissemination of better practices, in 2006 CAF took an active part in the sponsorship of events such as forums and workshops which offered an opportunity to analyze best practices and tendencies in the micro-financing field at regional and world level.

CAF also developed a number of alternative finance mechanisms to assist the Small and Medium Enterprise (MSME) sector. In Bolivia, the Institution provided resources to the *Fondo Aval Bursátil*, which issues guarantees that partially support short-term debt securities issued by MSMEs, through the trading room of the Bolivian Stock Market. It also approved Partial Guarantee Lines on behalf of a micro-financial institution to improve financing conditions for a group of between 60 and 80 of its MSME clients, thereby permitting greater indebtedness without adding further real guarantees to those backing their existing loans.

Efficiently managed national guarantee systems have helped overcome the sector's inefficiencies, and CAF therefore maintains a line with the National Guarantee Fund of Colombia, and is supporting a study to facilitate the creation of a national guarantee system in Ecuador.

With resources from the Entrepreneurial Investment and Development Fund for MSMEs (FIDE), CAF helped improve the sector's capital strength and innovative capacity. In 2006, six new operations were approved, bringing the total to 14 in ten countries. Through investment funds in Brazil and Argentina, CAF increased the scope of its risk capital investment portfolio for MSMEs, technology and agriculture. It also supported the creation and development of an Entrepreneurial Integrated Support Program in Costa Rica, offering finance to MSMEs at various stages of their development, as well as alternative financing mechanisms. Credit lines were granted to Financiera Desafyn in Costa Rica and the Institution invested in the Compass Fund of Peru, with a view to providing invoice discounts and factoring services to this sector. CAF also supported alternative energy sources, approving a loan for a project in Colombia to extract bio-diesel from African palm-oil. The project is expected to have a significant social impact, since it will facilitate the reinsertion of former members of the armed "self-defence" groups.

Corporate Governance Program

In 2006 the Corporate Governance Program continued to focus its activities on developing concepts and tools, as well as disseminating –and measuring progress in the application of– good corporate governance practices in the region. CAF thereby continues to consolidate its position as a leader in the promotion of this type of initiative in Latin America.

In 2006 the Institution published the Manual of Corporate Governance for Closed-Capital Companies, and made available software that permits the evaluation of corporate governance practices. The manual presents, in a didactic fashion, the principles enshrined in Guidelines for an Andean Code of Corporate Governance (LCAGC), accompanied by a series of examples and documents aimed at closed-capital companies. The software permits a diagnosis of the corporate governance practices of a company and the identification of priority action areas in accordance with the standards embodied in the LCAGC.

In the course of the year the Program continued to support public and private institutions in the region in developing local projects. Thus, CAF participated directly in several awareness-raising events, includig international seminars on the subject in Caracas, La Paz and Cartagena. It held four-day training workshops for consultants in Bogotá, Caracas, La Paz, Lima and Quito on the evaluation and implementation of standards of corporate governance, with the aim of encouraging their application in companies throughout the region. Additionally, the second phase of the support program for LCAGC application in ten public and private companies began.

A diagnosis of corporate governance practices was carried out in Bolivia, Colombia, Ecuador, Peru and Venezuela, to measure the level of observance of these principles in 189 representative companies in comparison with LCAGC recommendations.

Economic and Public Policy Research Program

The Economic and Public Policy Research Program helps the region's researchers both in putting their initiatives into practice and in joining a network of experts at international level. Through this program CAF benefits from the development of topics which are on its agenda, and which are subsequently disseminated and discussed throughout the region. This initiative has been fundamental in drawing up the Economy and Development Report (RED). Moreover, the debate on issues of relevance to the public policy agenda has given rise to and nourished other strategic programs, such as credit operations. Thanks to support from the institution for the dissemination of these topics, strategic alliances have been forged with other study centers in the region, such as the Economic Commission for Latin America and the Caribbean (ECLAC) and the Fernando Henrique Cardoso Institute, among others.

In 2006 the program focused on the issues of diversification and productivity. Among the works selected from the annual research proposals competition and from those commission from experts, nine research documents were developed. These concentrated on the role of clusters and foreign direct investment in the creation of new exports; the impact of different policies on company productivity, and studies of the experience of several Latin American countries in export diversification, among other topics. Some of these were debated at workshops held during the year. Two editions of the technical magazine *Perspectivas* were published containing some of these research papers, as well as a book on obstacles to innovation and to the development of new export opportunities in the region.

A new book on the region's financial and macro-economic challenges was published, covering the role that the region's financial system has played in the transmission of external shocks and recommending a series of policies that would contribute to improving the system and reducing possible adverse effects. CAF also held a series of seminars with the aim of disseminating the result of research efforts in 2005 on the subject of Latin America's international insertion. Also worth noting is CAF's active participation in the XI Annual Meeting of the Latin American Economists'

Association (LACEA), held in Mexico City, at which it organized a guest session on the evaluation of social policy in Latin America.

Another important contribution of the Economic and Public Policy Research Program was in the field of hydrocarbons. Following the Declaration of the Andean Presidential Summit in Guayaquil, Ecuador, on 26 July 2004, the Inter-American Development Bank and CAF have been backing a number of studies on the subject. Among other topics, the researchers have been examining competitiveness, the institutional framework, environmental and social impact and links between hydrocarbons and other sectors of the economy. This research underpins the hydrocarbons policies which will be developed in the region.

International Insertion Program

CAF has actively accompanied trade negotiations as part of its shareholder support role. In 2006 the International Insertion Program for Latin American countries provided finance for five research projects on trade agreements, particularly focused on agriculture and the impact of various negotiation scenarios relating to the Doha Round. In this context, discussions were held at the World Trade Organization the Trade Support initiative, including the active role regional development banks –and particularly an organization like CAF– need to play in order to guarantee success. Also worthy of note is the event held in Santiago de Chile, jointly with the ECLAC Trade Directorate, to discuss both institutions' trade research agendas. In the framework of this program, CAF also took part in a number of forums on government trade policy.


CAF

Other areas and activities

Regional promotion and public outreach

Seminars and events

During 2006 CAF participated in, organized and sponsored events and seminars on the theme of integration. Among them were:

- *Business in Latin America.* Seminar organized jointly by CAF and Foreign Policy magazine, which brought together business and financial leaders from the region, as well as from Spain and the United States, who debated likely political, economic and social scenarios for Latin America.
- *Economic and Political Challenges.* A breakfast conference organized by CAF together with Latin Finance magazine and Merrill Lynch with the aim of generating a debate on the region's prospects among the financial community attending the IDB Governors' Assembly.
- *Opportunities for Investment in Risk Capital in Latin America.* Seminar held jointly by CAF and LAVCA within the framework of the IDB Governors' meeting. In its 2006 edition the event focused on Latin America's competitiveness in global risk capital markets.
- *X Conference on Trade and Investment relations between the Region and the United States.* Seminar held jointly with Inter American Dialogue and the OAS every year in Washington D.C. on the subject of the main issues in US-Latin American relations. Offers a space for interaction and debate between the region's political and economic authorities and the government and Congress of the United States, as well as the academic community and the Washington media.
- *What does democracy mean in a global world?* Seminar organized by the Agenda Colombia Foundation and sponsored by CAF, whose main objective was to analyze and generate a discussion on the state of democracy in the region and its links to the economic model. The main speaker was Professor Jagdish Bhagwati of the University of Columbia in the United States.
- *Ibero-American Business Forum.* Seminar organized by CAF and Foreign Policy magazine, the Fride Foundation and the Toledo International Peace Center, with the aim of creating a space for encounters and discussions among business leaders from Latin America, Spain and the United States and politicians on the region's investment climate, as well as other current regional and international political and economic topics.
- *First International Micro-finance Seminar.* A Gamble on the Productive Future of the Country. Event promoted by CAF, the *Banco de la República Oriental del Uruguay (BROU)*, the National Development Corporation (CND) and the Budget and Planning Office of the Presidency of the Republic (OPP), held in Montevideo, Uruguay. The seminar evaluated best micro-financing practices in Latin America, covering topics which included prudent regulation to allow the sector to develop and participation of international sources of finance.
- *International Encounter on Business Development in Colombia.* Taking part were experts in business development, local and regional authorities and sponsoring organizations including financial and non-financial services providers and business "incubators", among others.
- *VI National Seminar on Regional Urban Research: The Collective Construction of the Territory.* Event organized by the Colombian Association of Regional Urban Research and the *Universidad del Rosario*, in which CAF presented the main achievements of the Preandino program.

- *Workshop on public policies for development.* Forums and workshops on current issues in public policies in the region, involving senior academics, public officials and representatives of the private sector. The following were among the most noteworthy in 2006: Promoting productivity and diversification in Latin America; Potential contribution of the hydrocarbons sector to the Andean Community; Promoting productivity and diversification in Latin America; Oil Strategies in Venezuela since Nationalization, 1976-2006, and Prospects for the second round in the Peruvian elections.
- *Latin America in global commerce workshops.* Forums to present the results of the second edition of the Economy and Development Report: Latin America in global commerce. Gaining markets. The audience included representatives of academia and of the public and private sectors in Bogotá, Buenos Aires, Caracas, La Paz, Lima, Madrid, New York and Quito.
- *XI Annual Meeting of the Economic Association of Latin America and the Caribbean, EALAC 2006* Annual conference co-sponsored by CAF and held in Mexico City. Brought together more than 350 participants from all parts of the world, including Nobel Prize-winners, high-ranking public officials –such as central bank presidents, ministers and ambassadors– senior academics, researchers, social science students and members of the business community. The meeting served to exchange ideas and public policy proposals on a number of global topics as well as a series of social and economic issues facing the Americas.
- *VII Biarritz Forum.* Event held in Biarritz, France, which has become one of the most important venues for European-Latin American debate. The Forum promotes a high-level debate among politicians, business leaders, public officials, journalists and academics on the subject of integration between the two regions.
- *Seminars for journalists, editors and media owners.* During 2006 CAF held 14 such events, in which 441 reporters, editors and publishers took part, in the framework of the Media Improvement Program. The Institution has been promoting this program since 2000 and so far more than 2,000 journalists have participated in 69 different meetings. The aim of the program is to contribute to the strengthening of democratic governance in member nations through the training of reporters and the creation of spaces in which journalists can reflect on and debate matters of interest to Latin America. Training workshops were held on economic and social journalism, photographic coverage of poverty and marginality, and environmental journalism among other topics.

From top to bottom:
VII Biarritz Forum.

X Conference on Trade and Investment relations in the Americas.

Ibero-American Business Forum.

The presidents of CAF and the FNPI renewed the agreement between their two institutions on strengthening the region's communications media.

To the right:
IV CAF-FNPI Round Table in Monterrey, Mexico.

Five other seminars were held:

- *IV CAF-GDA democratic governance seminar: electoral processes and political change in Latin America;*
- *Sucessful experiences in the Andean Region and Latin America with media auditability systems;*
- *Fourth CAF-FINP Round Table*, dealing with the role of the editor;
- *International Education Seminar* organized in conjunction with the Colombian education ministry; and
- *XII Euro-Latin American Communication Forum: Electoral Changes and Outstanding Obligations,* carried out in the framework of activities related to the Ibero-American Summit of Presidents and Heads of State and Government.

It should be noted that CAF carried out the majority of these events jointly with the Ibero-American New Journalism Foundation, with which it renewed its cooperation agreement.

The Institution also enjoyed the collaboration of other allies, such as the *Grupo Diarios de America*, the Press and Society Institute (Venezuela), the Association of European Journalists and the Florida International University.

Institutional publications

During 2006 the Institution's publications focused more closely on subjects related to CAF's development agenda in Latin America. For instance, the third part of the *Economy and Development Report* was published, along with other economic analysis papers such as *Sustainable Finances in Latin America and their Prospects: an Analysis of Critical Issues for Sustainable Development*, a twice-yearly CAF publication.

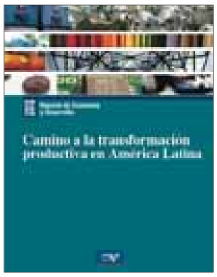
On the subject of corporate governance, a fresh revision of *Guidelines for an Andean Code of Corporate Governance* was published. This time the document was accompanied by software that allows companies to evaluate their performance in this area according to the degree of implementation of the recommended measures. Likewise, the *Corporate Governance Manual for closed-capital companies - Efficient and transparent Management* was published as a complement to the Guidelines. The intention is to facilitate the adoption of relevant practices for shareholders, directors and executives of family companies.

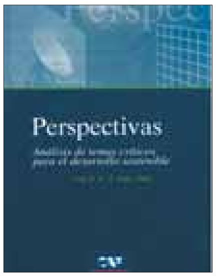
In relation to the issue of competitiveness, *the PAC Collection* was launched, including the series *Knowledge Assets, Entrepreneurial Capacity and Institutional Strengthening*. The nine publications that make up these series incorporate the various experiences derived from the PAC.

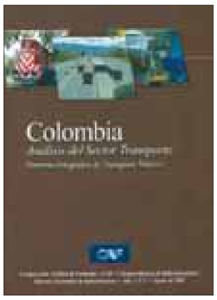
The following publications were issued on the subject of infrastructure: *Argentina: Analysis of the Electricity Industry, Venezuela: Analysis of the Transport Sector, Colombia: Analysis of the Electricity Industry, and South America: Analysis of Air Transport*. All belong to the *Sectoral Reports* series which CAF launched in 2003 as a means of contributing to the dissemination of the reforms that South American nations have been introducing in the transport, electricity and telecommunications industries.

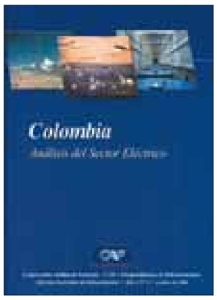
On social topics, 2006 saw the launch of the series called *Working Papers on Social and Educational Development* with a book entitled *Colombia: the current state of technical and technological education*. This volume is intended to contribute to the debate among those in government responsible for education policies.

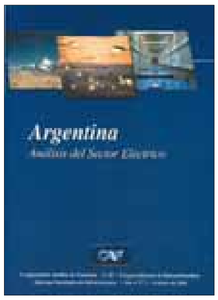
On the environment, CAF published *Pre-Andean Summary. An initiative aimed at reducing disaster risks in development processes*, which contains an evaluation of the results of the Pre-Andean program between 2000 and 2004.



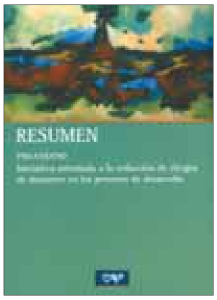


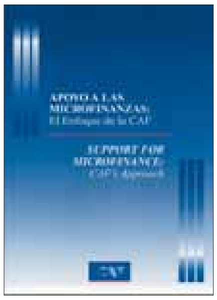


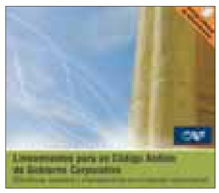


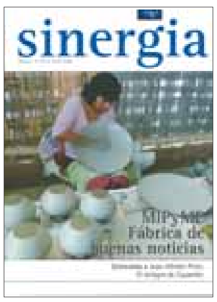


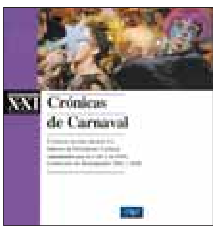
Spreading awareness
During 2006 CAF's publications focused on the dissemination of priority issues in support of the development agenda the Institution is promoting in the region.









On the subject of micro-finances, the pamphlet *Support for Micro-Finances: CAF approach* outlined the Institution's goals and scope in this area.

Also worthy of note are the new titles in the Journalists of the XXI Century Collection: *The future of journalism and the professional development of journalists in Latin America*, and *Carnival Chronicles*. Two new issues of CAF magazine *Sinergia Latinoamericana* were also published.

Internal organization

CAF is engaged in a permanent process of modernization and adaptation in order to meet the needs of shareholders and clients in an effective and opportune fashion. In 2006, the focus was on consolidating the structural changes carried out during the previous year and in improving the internal organization so as to strengthen the institution's competitive advantages.

In terms of human capital management, a series of initiatives were undertaken to optimize processes of selection and development. In operations and technology, the Institution began to develop a Disaster Recovery Plan as part of the Corporate Contingencies Program, while at the same time major steps were taken towards the adoption of better practices and industry standards in relation to operations and information security.

In line with new methods of delegation approved by the Directorate and CAF's current business needs, the Credit Guidelines Manual was approved and published, in a bid to strengthen the integrated approach to risks. At the same time, the first internal assessment of the credit and investment portfolio was carried out, and a transition matrix of rated loans was designed, in order to improve performance projections.

The Institution launched a program of corporate alignment, designed to help the different branches of the Organization to update their management models and thereby achieve higher levels of efficiency in carrying out their responsibilities under CAF's strategic agenda, minimize their operational risks, optimize the use of internal talent and increase CAF's flexibility and capacity to respond to the needs of its clients and shareholders.

The planning process for the construction of a new Representative Office of CAF in La Paz and the refurbishment of the Representative Office in Ecuador were both completed, along with modifications to various offices in the headquarters building.

One of the most important initiatives of the year in the communications field was the launch of a project to redesign the navigation software of the Institution's website, with the aim of making it easier to use and providing more user-friendly content, so as to enhance the Institution's image and positioning.

Clients, products and services

CAF'S 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 generally non-reimbursable resources for a series of special programs that support its mission in the framework of its for Comprehensive Development Agenda.

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 Institution offers financial products and services to shareholder states and public, private and mixed-capital companies based in shareholder countries.

Support for the private sector

The private sector has a direct impact as a wealth creator, a generator of employment and a promoter of trade and markets. Companies also have a key multiplier role in education and technology transfer.

CAF promotes the participation of the private sector in investment projects in the productive sectors of shareholder countries.

In addition, the institution offers advice on governance, corporate governance and the promotion of corporate social responsibility, which also requires the active participation of the sector, and structures physical integration projects in such a way as to include private sector participation, on account of the large capital investments involved in 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.

Support for the financial sector

With the aim of developing and strengthening relations with the financial sector of shareholder countries, CAF set up the Vice-presidency for Financial Systems. The new institutional model incorporates the development of a business relationship with public- and private-sector financial institutions, as well as institutional and sectoral support to government and supervisory bodies and professional and trade associations.

At the end of 2006 the loans, guarantees and risk capital portfolio for the financial sector stood at US$ 833 million.

In the course of the year, CAF:

- Set up a credit facility for the Ecuadorean Central Bank, to confirm letters of credit for imports.
- Increased credit facilities to selected banks in Colombia, Peru and Brazil.
- Established new credit facilities for selected banks in Bolivia.
- Resumed business relations with the main banks of Brazil.
- Initiated institution-building programs and signed technical cooperation agreements with Nafibo (Bolivia), the *Superintendencia de Banca y Seguros* of Peru, the *Comisión Nacional de Valores* of Venezuela and the *Banco Industrial de Venezuela*.

Products and services

The products and services offered by CAF are mainly aimed a supporting the implementation of its Agenda for Comprehensive Development and its special programs. They include a series of financial tools designed to meet clients' requirements and market opportunities, under the following headings:

Loans

Loans represent CAF's main financing tool. They are employed in investment projects and activities corresponding to the Institution's corporate mission.

Project financing

Project Financing loans are allocated to develop and execute projects in road transportation, telecommunications, water and environment, border development and the physical integration of shareholder countries. CAF also provides financing to corporate projects in the industrial field, to enhance and renovate productive capacity and to insert businesses into regional and global markets.

Credit lines

Credit lines allow the Institution to offer maximum resources for a given period without an express commitment to the client.

Project structuring and financing

CAF actively participates in the financing of projects structured with limited guarantees (limited recourse lending). This category is mainly utilized for the financing of BOO (Build, Operate and Own) operations in the infrastructure sector, generally arising from concessions granted by governments, or to finance oil and gas, mining and other extractive projects.

Co-financing

Co-financing is a type of loan that complements financial resources provided by CAF and attracts external capital to the region. Through these instruments, the Institution grants the A portion of the loan using its own resources, while distributing the B portion among international banks and institutional investors.

In addition, CAF co-finances operations with other multilateral organizations, such as the Inter-American Development Bank, the World Bank, the International Investment Corporation, the Nordic Investment Bank, the International Finance Corporation and the International Fund for Agricultural Development, as well as with official bodies and local and international private banks.

Guarantees

Guarantees are used by the Institution to back up credit operations approved by other sources for governments, businesses and financial institutions.

Partial Credit Guarantees

Partial Credit Guarantees (PCG) are financial instruments through which a portion of the credit risk of a client's obligation is guaranteed to a third party. Through this mechanism, CAF attracts fresh resources to the region and stimulates the activities of private financial sources by offering conditions that would otherwise not be available.

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 are either reimbursable, non-reimbursable or conditional recovery, depending on the nature and purpose of the operation.

Cooperation funds are primarily intended to support reforms related to state modernization processes, such as privatization, administrative decentralization and institutional fortification. They also contribute to export and investment plans, the development and integration of the region's financial and capital markets, technology transfer and adaptation, environmental protection, social development and the promotion of cultural values.

CAF also administrates and supervises funds, mostly non-reimbursable, belonging to other countries and bodies, which are devoted to financing programs agreed with donor bodies and in accordance with the policies and strategies of the Institution.

Innovative products

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. In some cases the Institution also participates in the financing of the operation.

Financing Compensation Fund (FCF)

The Financing Compensation Fund (FCF) 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 FCF 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.

Audited financial statements

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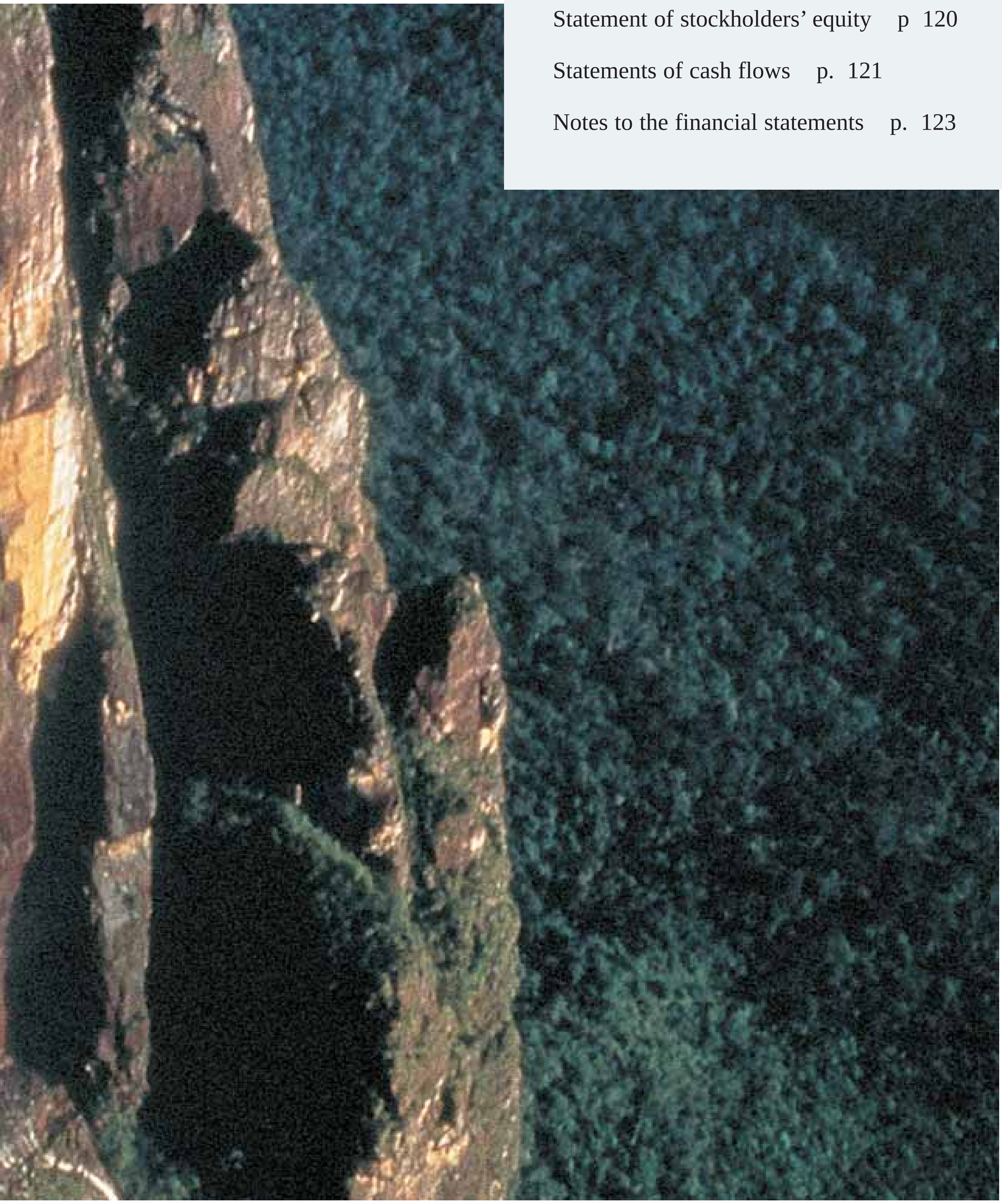

Independent auditors' report

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, 2006 and 2005, 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 also includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2006 and 2005, 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

January 30, 2007
Caracas, Venezuela

Alcaraz Cabrera Vásquez, firma venezolana miembro de KPMG Internacional, una cooperativa Suiza.

Balance sheets

Corporación Andina de Fomento
Annual Report 2006

Balance sheets. December 31, 2006 and 2005

	(In thousands of U.S. dollars)		
	Note	**2006**	**2005**
Assets			
Cash and due from banks		8,997	1,740
Deposits with banks	2	353,442	334,571
Marketable securities			
Trading	3	1,001,618	1,105,568
Held-to-maturity	3	356,128	87,885
Other investments	2	210,430	258,576
Loans	4	8,097,472	7,346,978
Less loan commissions, net of origination costs		59,982	57,023
Less allowance for losses	4	188,608	161,629
Loans, net		7,848,882	7,128,326
Equity investments	5	93,426	114,646
Interest and commissions receivable		226,530	181,939
Property and equipment	6	23,931	10,986
Other assets	7	316,109	258,092
Total assets		10,439,493	9,482,329
Liabilities and Stockholders' Equity			
Deposits	8	449,797	386,419
Commercial paper	9	773,354	710,270
Advances and short-term borrowings		339,256	443,707
Bonds	10	4,362,161	4,061,108
Borrowings and other obligations	11	559,135	489,972
Accrued interest and commissions payable		136,878	110,954
Accrued expenses and other liabilities	12	126,185	42,738
Total liabilities		6,746,766	6,245,168
Subscribed and paid-in capital (authorized capital US$ 5,000 million)		1,870,615	1,681,885
Additional paid-in capital		256,707	239,524
Reserves		1,244,752	1,032,514
Retained earnings		320,653	283,238
Total stockholders' equity	14	3,692,727	3,237,161
Total liabilities and stockholders' equity		10,439,493	9,482,329

See accompanying notes to the financial statements.

Statements of income

Corporación Andina de Fomento
Annual Report 2006

Statements of income. Years ended December 31, 2006 and 2005

		(In thousands of U.S. dollars)	
	Note	**2006**	**2005**
Interest income			
Loans	1(f)	600,784	462,716
Investments and deposits with banks	1(e)	95,830	59,433
Loan commissions	1(f)	38,892	25,423
Total interest income		735,506	547,572
Interest expense			
Deposits		20,587	12,319
Commercial paper		28,831	15,789
Advances and short-term borrowings		13,804	12,986
Bonds		264,424	188,551
Borrowings and other obligations		31,077	21,069
Commissions		5,350	4,871
Total interest expense		364,073	255,585
Net interest income		371,433	291,987
Provision for (credit to) allowance for loan losses	4	19,000	(14,500)
Net interest income, after provision for (credit to) allowance for loan losses		352,433	306,487
Non-interest income			
Other commissions		4,090	5,814
Dividends and equity in earnings of investees		5,126	13,358
Ineffectiveness arising from fair value hedges		4,372	(1,146)
Other income		1,399	1,721
Total non-interest income		14,987	19,747
Non-interest expenses			
Administrative expenses		46,414	42,640
Impairment charge for equity investments	5	190	24
Other expenses		163	332
Total non-interest expenses		46,767	42,996
Net income		320,653	283,238

See accompanying notes to the financial statements.

Statements of stockholders' equity

Corporación Andina de Fomento
Annual Report 2006

Statements of stockholders' equity. Years ended December 31, 2006 and 2005

(In thousands of U.S. dollars)

	Note	Subscribed and paid-in capital	Additional paid-in capital	Reserve pursuant to: General reserve	Reserve pursuant to: Article N° 42 of by-laws	Total reserves	Retained earnings	Total stock-holders' equity
Balances at December 31, 2004		1,498,675	220,072	660,067	206,074	866,141	207,753	2,792,641
Capital increase	14	95,110	107,552	-	-	-	-	202,662
Stock dividends	14	88,100	(88,100)	-	-	-	-	-
Net income	14	-	-	-	-	-	283,238	283,238
Appropriated for general reserve	14	-	-	145,573	-	145,573	(145,573)	-
Appropriated for reserve pursuant to Article No. 42 of by-laws	14	-	-	-	20,800	20,800	(20,800)	-
Distributions to stockholders' funds	15	-	-	-	-	-	(41,380)	(41,380)
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 No. 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

See accompanying notes to the financial statements.

Statements of cash flows

Statements of cash flows. Years ended December 31, 2006 and 2005

		(In thousands of U.S. dollars)	
	Note	**2006**	**2005**
Cash flows from operating activities :			
Net income		320,653	283,238
Adjustments to reconcile net income to net cash provided by operating activities -			
Gain on sale of trading securities	3	(4)	(56)
Amortization of loan commissions, net of origination costs		(13,764)	(13,655)
Provision for (credit to) allowance for loan losses	4	19,000	(14,500)
Impairment charge for equity investments	5	190	24
Equity in earnings of investees		(2,447)	(8,273)
Amortization of deferred charges		2,971	3,138
Depreciation of property and equipment	6	3,234	3,115
Loss on sale of property and equipment		-	37
Provision for employees' severance indemnities and benefits		5,476	4,544
Provision for employees' savings plan		1,491	1,497
Net changes in operating assets and liabilities			
Severance indemnities paid or advanced		(3,055)	(2,863)
Employees' savings plan paid or advanced		(606)	(1,532)
Trading securities, net	3	103,954	(87,796)
Interest and commissions receivable		(44,591)	(30,892)
Other assets		5,987	(11,517)
Accrued interest and commissions payable		25,924	15,097
Accrued expenses and other liabilities		(46,261)	(61,395)
Total adjustments and net changes in operating assets and liabilities		57,499	(205,027)
Net cash provided by operating activities		378,152	78,211
Cash flows from investing activities :			
Purchases of held-to-maturity securities	3	(1,692,804)	(732,383)
Maturities of held-to-maturity securities	3	1,424,561	810,860
Purchases of other investments	2	(588,132)	(634,244)
Maturities of other investments	2	636,278	546,189
Loan origination and principal collections, net	4	(669,082)	(175,832)
Equity investments	5	23,477	5,738
Purchases of property and equipment	6	(16,179)	(1,489)
Net cash used in investing activities		(881,881)	(181,161)
Carried forward		(503,729)	(102,950)

Continued

Statements of cash flows. Years ended December 31, 2006 and 2005

		(In thousands of U.S. dollars)	
	Note	2006	2005
Brought forward		**(503,729)**	**(102,950)**
Cash flows from financing activities :			
Net increase in deposits		63,378	181,073
Net increase in commercial paper		60,182	3,213
Proceeds from advances and short-term borrowings		864,993	997,624
Repayment of advances and short-term borrowings		(969,444)	(1,056,878)
Proceeds from issuance of bond	10	810,228	584,332
Repayment of bonds	10	(504,678)	(724,624)
Proceeds from borrowings and other obligations	11	154,227	20,000
Repayment of borrowings and other obligations	11	(83,942)	(99,504)
Distributions to stockholders' funds	15	(71,000)	(41,380)
Proceeds from issuance of shares	14	205,913	202,662
Net cash provided by financing activities		529,857	66,518
Net increase (decrease) in cash and cash equivalents		26,128	(36,432)
Cash and cash equivalents at beginning of year		336,311	372,743
Cash and cash equivalents at end of year		362,439	336,311
Consisting of :			
Cash and due from banks		8,997	1,740
Deposits with banks		353,442	334,571
		362,439	336,311
Supplemental disclosure :			
Interest paid during the year		327,725	235,717
Noncash financing activities -			
Change in other assets due to fair value hedging relationships		70,044	(410,761)
Change in other liabilities due to fair value hedging relationships		68,077	2,781

See accompanying notes to the financial statements.

Notes to the financial statements

Corporación Andina de Fomento
December, 31, 2006 and 2005
(In thousands of U.S. dollars)

(1) Significant Accounting Policies

(a) Description of Business

Corporación Andina de Fomento ("CAF" or the "Corporation") commenced operations on June 8, 1970 established under public international law which abides by the provisions of its by-laws. Series "A" and "B" Shareholder countries are: Bolivia, Colombia, Ecuador, Peru and Venezuela. Series "C" Shareholder countries are: Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Jamaica, Mexico, Paraguay, Panama, 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 Statements Presentation

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

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

Certain amounts in the prior year have been reclassified to conform to the current year's presentation.

(c) Foreign Currency Transactions

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

(d) Cash Equivalents

Cash equivalents are defined as cash, due from banks and deposits with banks.

(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 its 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.

(2) Deposits with Banks and Other Investments

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

	December 31,	
	2006	**2005**
U.S. dollars	350,820	331,098
Other currencies	2,622	3,473
	353,442	**334,571**

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, 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
	1,001,618	1.49	5.45
At December 31, 2005 -			
U. S. Treasury Notes	39,762	0.37	3.56
Bonds of non-U.S. governments and government entities	237,616	1.47	3.66
Financial institutions and corporate securities	828,190	1.83	4.04
	1,105,568	1.70	3.94

Trading securities include net unrealized gains of US$ 167 and US$ 332 at December 31, 2006 and 2005, 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, 2006 -				
Bonds of non-U.S. governments and government entities	60,483	17	-	60,500
Financial institutions and corporate securities	295,645	-	-	295,645
	356,128	17	-	356,145
At December 31, 2005 -				
U. S. Treasury Notes	5,001	-	(21)	4,980
Bonds of non-U.S. governments and government entities	37,884	5	(21)	37,868
Financial institutions and corporate securities	45,000	-	-	45,000
	87,885	5	(42)	87,848

Held-to-maturity securities mature as follows:

	December 31,	
	2006	2005
Remaining Maturities -		
Less than one year	316,644	80,373
Between one and two years	14,996	7,512
Between two and three years	10,496	-
Between three and four years	13,992	-
	356,128	87,885

(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, 2006 -							
Loans	1,024,293	1,619,530	1,370,785	1,801,741	1,723,523	557,573	8,097,445
Fair value adjustments on hedging activities							27
Carrying value of loans							8,097,472
At December 31, 2005 -							
Loans	981,643	1,899,517	1,230,543	1,712,262	1,134,678	387,995	7,346,638
Fair value adjustments on hedging activities							340
Carrying value of loans							7,346,978

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, 2006, loans in other currencies were granted for an equivalent of US$ 4,066, principally in Peruvian nuevos soles. At December 31, 2006 and 2005, loans include fixed interest rate loans of US$ 78,987 and US$ 104,052, respectively.

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

	December 31,			
	2006		2005	
	Amount	Average yield (%)	Amount	Average yield (%)
Loans	8,097,445	8.19	7,346,638	7.42

Loans by industry segments are as follows:

	December 31,			
	2006	%	2005	%
Agriculture, hunting and forestry	142,056	2	220,279	3
Exploitation of mines and quarries	60,000	1	10,000	1
Manufacturing industry	193,379	2	168,633	2
Supply of electricity, gas and water	908,160	11	838,646	11
Transport, warehousing and communications	3,189,947	39	2,751,072	37
Commercial banks	460,089	6	492,515	7
Development banks	266,468	3	252,742	3
Social and other infrastructure programs	2,850,809	35	2,582,288	35
Other activities	26,537	1	30,463	1
	8,097,445	100	7,346,638	100

Loans mature as follows:

	December 31,	
	2006	2005
Remaining maturities -		
Less than one year	1,438,002	1,374,268
Between one and two years	997,762	996,721
Between two and three years	991,247	910,545
Between three and four years	848,419	764,184
Between four and five years	839,428	722,714
Over five years	2,982,587	2,578,206
	8,097,445	7,346,638

At December 31, 2006 and 2005, all loans were performing except for certain loans which were classified as impaired and were in nonaccrual status. At December 31, 2005, the carrying value of impaired loans was approximately US$ 1,332. The average recorded investment in impaired loans during the years ended December 31, 2006 and 2005 was approximately US$ 199 and US$ 9,331, respectively.

Had these loans not been in impairment status, income for the years ended December 31, 2006 and 2005 would have increased by US$ 16 and US$ 577, respectively. During the year ended December 31, 2005, there were interest collections against impaired loans amounting to US$ 76.

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 and 2005, the Corporation administered loans of this nature whereby other financial institutions provided funds amounting to US$ 69,833 and US$ 441,221, respectively.

Allowance for Loan Losses

Movements of the allowance for loan losses follow:

	December 31,	
	2006	2005
Balances at beginning of year	161,629	181,801
Provision for (credit to) results of operations	19,000	(14,500)
Recoveries	9,043	4,696
Loans charged-off	(1,064)	(10,368)
Balances at end of year	188,608	161,629

(5) Equity Investments

A summary of equity investments follows:

	December 31,	
	2006	2005
Direct investments in companies (including investments accounted for using the equity method of US$ 5,668 and US$ 5,456, at December 31,2006 and 2005, respectively)	10,371	10,640
Investment funds (including investments accounted for using the equity method of US$ 62,197 and US$ 72,826, at December 31, 2006 and 2005, respectively)	83,055	104,006
	93,426	114,646

The Corporation recorded an impairment charge of US$ 190 and US$ 24 for the years ended December 31, 2006 and 2005, respectively, related to equity investments accounted for at cost.

(6) Property and Equipment

A summary of property and equipment follows:

	December 31,	
	2006	2005
Land	14,069	796
Buildings	19,353	19,353
Buildings improvements	10,939	10,035
Furniture and equipment	8,298	6,323
Vehicles	328	328
	52,987	36,835
Less accumulated depreciation	29,056	25,849
	23,931	10,986

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	5 years

(7) Other Assets

A summary of other assets follows:

	December 31,	
	2006	2005
Deferred charges	27,170	36,629
Derivative assets (see note 17)	285,364	215,320
Other assets	3,575	6,143
	316,109	258,092

(8) Deposits

The Corporation's deposits of US$ 449,797 at December 31, 2006 mature in 2007 (US$ 386,419 at December 31, 2005 - mature in 2006).

(9) Commercial Paper

The Corporation's commercial paper of US$ 773,354 at December 31, 2006 matures in 2007 (US$ 710,270 at December 31, 2005 - matures in 2006). At December 31, 2006 and 2005, the interest rates on commercial paper ranged from 3.62% to 5.43% and from 4.23% to 4.60%, respectively.

(10) Bonds

An analysis of bonds follows:

	December 31,					
	2006			2005		
	Principal outstanding At original exchange rate	Principal outstanding At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)	Principal outstanding At original exchange rate	Principal outstanding At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)
U.S. dollars	2,630,340	2,630,340	6.34	2,451,128	2,451,128	5.31
Yen	184,332	168,011	5.96	385,945	382,231	4.49
Colombian Pesos	100,000	121,500	5.43	100,000	119,003	4.65
Pounds Sterling	63,405	79,783	7.97	272,193	300,982	7.23
Euros	998,659	1,187,727	6.25	637,668	731,227	5.61
Peruvian Nuevos Soles	75,748	77,698	5.87	-	-	-
Venezuelan Bolivars	100,000	100,000	5.28	-	-	-
	4,152,484	**4,365,059**		**3,846,934**	**3,984,571**	
Fair value adjustments on hedging activities		(2,898)			76,537	
Carrying value of bonds		**4,362,161**			**4,061,108**	

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,	
	2006	2005
Remaining maturities -		
Less than one year	499,593	294,379
Between one and two years	137,646	499,655
Between two and three years	734,703	287,704
Between three and four years	162,709	584,770
Between four and five years	783,869	371,948
Over five years	1,833,964	1,808,478
	4,152,484	3,846,934

At December 31, 2006 and 2005, fixed interest rate bonds amounted to US$ 2,894,621 and US$ 3,003,082, respectively, of which US$ 758,896 and US$ 1,117,357, respectively, are denominated in yen, pounds sterling, Colombian pesos, euros and Peruvian nuevos soles.

(11) Borrowings and Other Obligations

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

	December 31,					
	2006			2005		
	Principal outstanding		Weighted average cost, after swaps (%) (Year-end)	Principal outstanding		Weighted average cost, after swaps (%) (Year-end)
	At original exchange rate	At spot exchange rate		At original exchange rate	At spot exchange rate	
U.S. dollars	539,092	539,092	5.84	463,245	463,245	4.84
Yen	11,766	12,601	4.18	19,610	21,235	4.17
Euros (at spot rate)	1,899	1,899	5.41	3,574	3,574	5.81
Peruvian Nuevos Soles	4,066	4,066	5.99	-	-	-
Other currencies (at spot rate)	1,823	1,823	-	1,932	1,932	-
	558,646	559,481		488,361	489,986	
Fair value adjustments on hedging activities		(346)			(14)	
Carrying value of borrowings and other obligations		559,135			489,972	

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, 2006 and 2005, there are fixed interest-bearing borrowings and other obligations amounting to US$ 20,322 and US$ 20,945, respectively.

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

	December 31,	
	2006	2005
Remaining maturities -		
Less than one year	104,880	76,839
Between one and two years	57,072	110,006
Between two and three years	144,703	55,133
Between three and four years	28,996	143,890
Between four and five years	105,889	29,496
Over five years	117,106	72,997
	558,646	488,361

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

At December 31, 2006 and 2005 there were unused term credit facilities amounting to US$ 227,700 and US$ 128,000, respectively.

(12) Accrued Expenses and Other Liabilities

A summary of accrued expenses and other liabilities follows:

	December 31,	
	2006	2005
Employees' severance indemnities, benefits and savings plan	42,157	34,346
Derivative liabilities (see note 17)	70,858	2,781
Deferred income	2,442	2,859
Other liabilities	10,728	2,752
	126,185	42,738

(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 55 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, 2006 and 2005 follow:

	December 31,	
	2006	2005
Plan's benefit obligation (PBO)	189	644
Assets	189	639

Weighted-average assumptions used to determine net benefit cost from the origination of the Plan to December 31, 2006 and 2005 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, 2006 and 2005, 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, 2006 and 2005, follows:

	Number of Shares			Amounts			
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	Total
At December 31, 2004	5	269,722	28,813	6,000	1,348,610	144,065	1,498,675
Dividends in shares	-	15,931	1,689	-	79,655	8,445	88,100
Issued for cash	-	14,926	4,096	-	74,630	20,480	95,110
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

Subscribed and paid-in capital is held as follows at December 31, 2006:

Stockholder	Number of Shares Series "A"	Number of Shares Series "B"	Number of Shares Series "C"	Amounts Series "A"	Amounts Series "B"	Amounts Series "C"	Total
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
	5	332,387	40,536	6,000	1,661,935	202,680	1,870,615

At December 31, 2006, the distribution of unpaid subscribed capital and of subscribed callable capital is presented below:

Stockholder	Unpaid Subscribed Capital Series "B" Number of shares	Unpaid Subscribed Capital Series "B" Amount	Unpaid Subscribed Capital Series "C" Number of shares	Unpaid Subscribed Capital Series "C" Amount	Subscribed Callable Capital Series "B" Number of shares	Subscribed Callable Capital Series "B" Amount	Subscribed Callable Capital Series "C" Number of shares	Subscribed Callable Capital Series "C" 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	-	-	-	-
	3,106	**15,530**	**9,327**	**46,635**	**180,000**	**900,000**	**42,400**	**212,000**

Subscribed and paid-in capital is held as follows at December 31, 2005:

Stockholder	Number of Shares			Amounts			
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	Total
Bolivia	1	22,911	-	1,200	114,555	-	115,755
Colombia	1	83,275	-	1,200	416,375	-	417,575
Ecuador	1	24,050	-	1,200	120,250	-	121,450
Peru	1	85,047	-	1,200	425,235	-	426,435
Venezuela	1	85,047	-	1,200	425,235	-	426,435
Argentina	-	-	2,687	-	-	13,435	13,435
Brazil	-	-	11,297	-	-	56,485	56,485
Chile	-	-	294	-	-	1,470	1,470
Costa Rica	-	-	2,204	-	-	11,020	11,020
Jamaica	-	-	124	-	-	620	620
Mexico	-	-	3,158	-	-	15,790	15,790
Panama	-	-	1,416	-	-	7,080	7,080
Paraguay	-	-	1,224	-	-	6,120	6,120
Spain	-	-	10,455	-	-	52,275	52,275
Trinidad & Tobago	-	-	140	-	-	700	700
Uruguay	-	-	1,599	-	-	7,995	7,995
Commercial banks	-	249	-	-	1,245	-	1,245
	5	300,579	34,598	6,000	1,502,895	172,990	1,681,885

At December 31, 2005, 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	2,311	11,555	-	-	14,400	72,000	-	-
Colombia	5,938	29,690	-	-	50,400	252,000	-	-
Ecuador	1,234	6,170	-	-	14,400	72,000	-	-
Peru	4,336	21,680	-	-	50,400	252,000	-	-
Venezuela	4,336	21,680	-	-	50,400	252,000	-	-
Argentina	-	-	6,161	30,805	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Mexico	-	-	-	-	-	-	1,600	8,000
Panama	-	-	675	3,375	-	-	-	-
Spain	-	-	-	-	-	-	40,000	200,000
Uruguay	-	-	2,108	10,540	-	-	-	-
	18,155	90,775	8,944	44,720	180,000	900,000	42,400	212,000

General Reserve

The general reserve was set-up to cover possible contingencies. The stockholders decided to increase the reserve by US$ 183,738 and US$ 145,573 during the years ended December 31, 2006 and 2005, by appropriations from net income for the years ended December 31, 2005 and 2004, respectively.

Reserve Pursuant to Article No. 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 2006 and 2005, it was authorized to increase the reserve by US$ 28,500 and US$ 20,800, from net income for the years ended December 31, 2005 and 2004, 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 2006 and 2005, the stockholders agreed to distribute US$ 71,000 and US$ 41,380, from retained earnings at December 31, 2005 and 2004, 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, 2006 and 2005:

	Notional amount		Fair value	
	Interest rate swap	Cross-currency swap	Derivative assets	Derivative liabilities
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
	2,215,725	1,725,905	285,364	70,858
At December 31, 2005 -				
Loans	30,000	-	-	294
Bonds	1,950,725	-	6,071	-
Bonds	-	1,396,059	207,359	237
Borrowings and other obligations	-	19,611	1,462	-
Commercial paper	-	173,844	428	2,250
	1,980,725	1,589,514	215,320	2,781

For the years ended December 31, 2006 and 2005 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, 2006 and 2005. 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,			
	2006		2005	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash and due from banks	8,997	8,997	1,740	1,740
Deposits with banks	353,442	353,442	334,571	334,571
Trading securities	1,001,618	1,001,618	1,105,568	1,105,568
Held-to-maturity securities	356,128	356,145	87,885	87,848
Other investments	210,430	210,430	258,576	258,576
Loans, net	7,848,882	7,853,270	7,128,326	7,132,842
Equity investments	93,426	93,426	114,646	114,646
Interest and commissions receivable	226,530	226,530	181,939	181,939
Derivative contracts (included in other assets)	285,364	285,364	215,320	215,320
Financial liabilities:				
Deposits	449,797	449,797	386,419	386,419
Commercial paper	773,354	773,354	710,270	710,270
Advances and short-term borrowings	339,256	339,256	443,707	443,707
Bonds	4,362,161	4,366,054	4,061,108	4,065,155
Borrowings and other obligations	559,135	558,280	489,972	489,227
Derivative contracts (included in accrued expenses and other liabilities)	70,858	70,858	2,781	2,781
Accrued interest and commissions payable	136,878	136,878	110,954	110,954

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,	
	2006	2005
Credit agreements subscribed	2,133,410	2,121,192
Lines of credit	1,232,221	811,790
Letters of credit	20,065	11,946
Guarantees	544,630	203,789

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,	
	2006	2005
Less than one year	273,480	2,850
Between one and two years	-	85,333
Between two and three years	109,540	-
Over five years	161,610	115,606
	544,630	203,789

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, 2006 and 2005 was nil.

Corporate Governance

Corporación Andina de Fomento

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 and 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 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

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 37th Ordinary Shareholders Meeting was held on March 21st, 2006.
2 Four Board of Directors Meetings were held during 2006: March 21st, June 27th, October 24th, and November 28th.

Board members

(as of December 31st, 2006)

Chairman of the Board (2006-2007) [1]

Alberto Carrasquilla
Ministro de Hacienda y Crédito Público de Colombia

SERIES A SHAREHOLDERS

BOLIVIA

Principal: Luis Hernando Larrazábal
Ministro de Planificación del Desarrollo
Deputy: Luis Fernando Baudoin
Viceministro de Inversión Pública y Financiamiento Externo

COLOMBIA

Principal: Alberto Carrasquilla
Ministro de Hacienda y Crédito Público
Deputy: Jorge Humberto Botero
Ministro de Comercio Exterior

ECUADOR

Principal: Víctor Hernández
Presidente del Directorio de la Corporación Financiera Nacional
Deputy: Antonio Sánchez
Gerente General de la Corporación Financiera Nacional

PERU

Principal: Mercedes Araóz
Ministra de Comercio Exterior y Turismo
Deputy: Luis Carranza
Ministro de Economía y Finanzas

VENEZUELA

Principal: Nelson Merentes
Ministro de Finanzas
Deputy: Jorge Giordani
Ministro de Planificación y Desarrollo

SERIES B SHAREHOLDERS

BOLIVIA

Principal: Luis Arce
Ministro de Hacienda
Deputy: Oscar Navarro
Viceministro de Tesoro y Crédito Público

1 Until March 2006, Luis Arce, Ministro de Hacienda de Bolivia, was the Chairman of the Board.

COLOMBIA

Principal: José Darío Uribe
Gerente General del Banco de la República

Deputy: Carolina Rentería
Directora del Departamento Nacional de Planeación

ECUADOR

Principal: José Jouvín
Ministro de Economía y Finanzas

Deputy: Leopoldo Báez
Miembro del Directorio del Banco Central del Ecuador

PERU

Principal: Luis Rebolledo
Presidente del Directorio Corporación Financiera de Desarrollo (COFIDE)

Deputy: José Arista
Viceministro de Hacienda. Ministerio de Economía y Finanzas

VENEZUELA

Principal: María Cristina Iglesias
Ministra de Industrias Ligeras y Comercio

Deputy: Edgar Hernández Behrens
Presidente Banco de Desarrollo Económico y Social de Venezuela

SERIES C SHAREHOLDERS

BRAZIL

Principal: José Carlos Rocha Miranda
Secretario de Asuntos Internacionales. Ministerio de Planeamiento, Presupuesto y Gestión

COSTA RICA

Deputy: Francisco de Paula Gutiérrez
Presidente del Banco Central de Costa Rica

SPAIN

Principal: Pedro Solbes Mira
Vicepresidente Segundo del Gobierno y Ministro de Economía y Hacienda

ARGENTINA

Deputy: Oscar Tangelson
Secretario de Política Económica y Viceministro de Economía

BANKS

Principal : José Antonio Colomer
Director de la Junta de Directores del Banco Continental del Perú

Deputy: Gustavo Marturet
Presidente del Banco Mercantil de Venezuela

Executive management
(as of December 31st, 2006)

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 Marcelo Zalles
Director, Risk Management Camilo Arenas
Director, Internal Audit Paola Gennari

Chief Credit Officer Stephen Foley
Director, Special Assets Renny López

Head of Public Policies and Competitiveness Office and Chief Economist Luis Miguel Castilla

Chief, Human Resources Office José Bellido
Director, Human Resources Operations Corina Arroyo
Director, Human Resources Planning Leopoldo Gómez

Head of External Affairs 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 Paláu
Country Representative, Peru Germán Jaramillo
Assistant Representantive, Peru Ricardo Campins

Corporate Vice President, Infrastructure Antonio Juan Sosa
Director, Projects Manuel Llosa
Director, 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, Sector Policies and Institutional Strength

Corporate Vice President, Social and Environmental Development Claudia Martínez
Director, Social Development Bernardo Requena
Director, Environment María Teresa Szauer
Director, SMEs and Microfinance Manuel Malaret

Corporate Vice President, Chief Financial Officer Hugo Sarmiento
Director, Financial Policies and International Issues Gabriel Felpeto
Director, Multilateral and Bank Financing Fernando Infante
Director, Treasury Eleonora Silva
Director, Accounting and Budget Marcos Subía

Director, Operations Control Germán Alzate
Director, Information Technology Esteban Cover
Director, General Services Jaime Caycedo

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