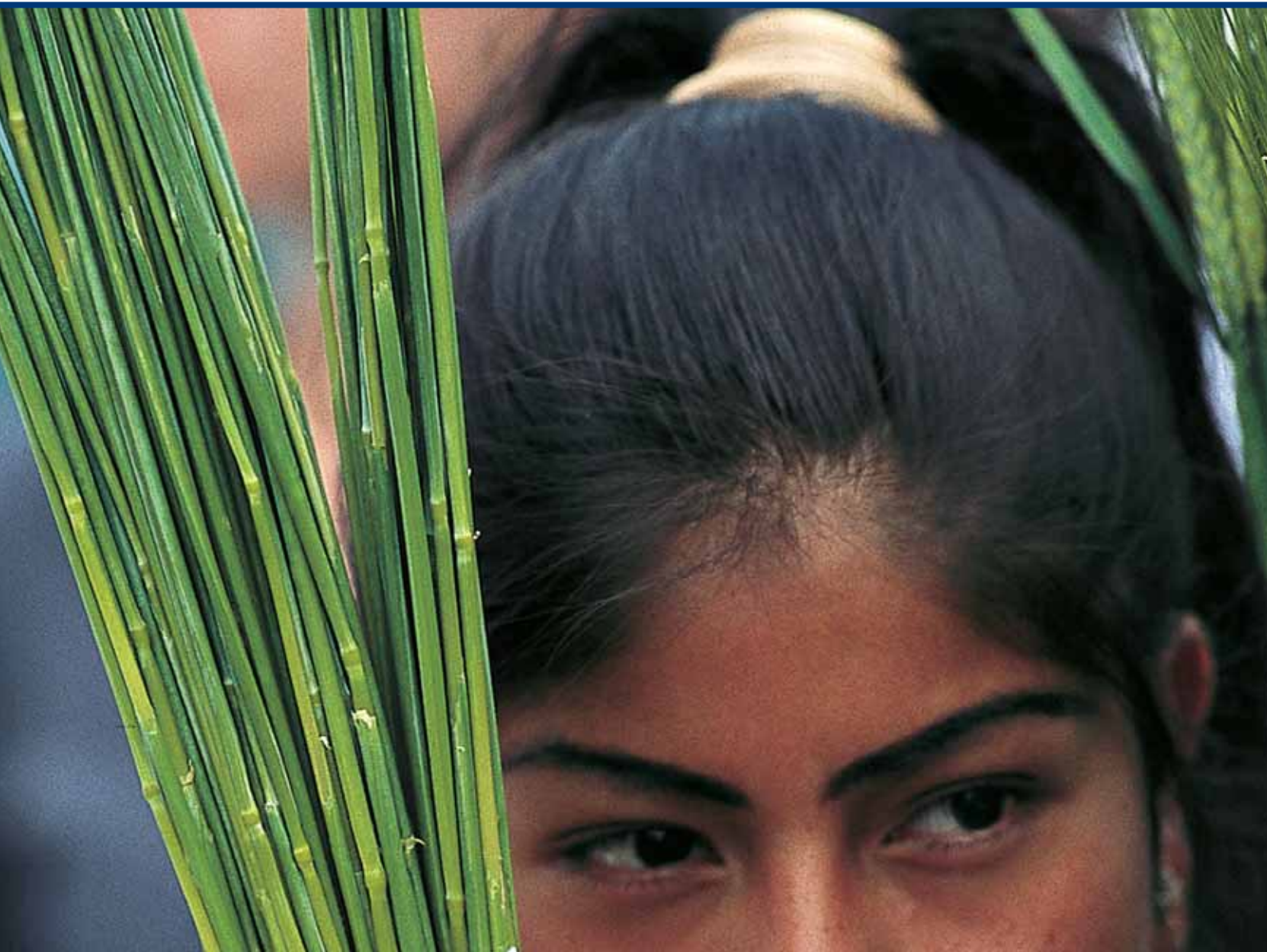


Annual Report 2004 Corporación Andina de Fomento





Content



Financial highlights in 2004	p. 5
Letter from the Executive President	p. 7
The economic environment and regional integration	p. 9
Central theme: CAF and the region's social development	p. 25
Financial and operational analysis	p. 43
Operations	p. 45
Management's discussion of financial condition	p. 81
CAF: an agenda for growth, competitiveness and sustainable development	p. 87
Clients, products and services	p. 107
Financial statements	p. 111
Governing bodies	p. 139
Board of Directors	p. 140
Management	p. 142
Headquarters	p. 143

Corporación Andina de Fomento (CAF) is a multilateral financial institution which supports the sustainable development of its shareholder countries and integration efforts within the region. Its shareholders are the five countries of the Andean Community: Bolivia, Colombia, Ecuador, Peru and Venezuela, as well as Argentina, Brazil, Chile, Costa Rica, Spain, Jamaica, Mexico, Panama, Paraguay, Dominican Republic, Trinidad & Tobago, Uruguay and 16 private banks in the region.

CAF serves both the public and private sectors by providing multiple financial services to a broad customer base comprised of shareholder countries, corporations and financial institutions. Its management policies incorporate social and environmental variables, and its operations include ecoefficiency and sustainability criteria. As a financial intermediary it attracts resources from industrialized countries to Latin America, and serves as a bridge between international capital markets and the region by promoting investments and business opportunities.

Financial highlights in 2004

- Total assets: US\$ 9,586 million (US\$ 8,818 million in 2003)
- Liquid assets: US\$ 1,727 million (US\$ 1,683 million in 2003)
- Loan and investment portfolio: US\$ 7,216 million (US\$ 6,712 million in 2003)
- Paid-in capital: US\$ 1,499 million (US\$ 1,319 million in 2003)
- Shareholders' equity: US\$ 2,793 million (US\$ 2,380 million in 2003)
- Net profit: US\$ 208 million (US\$ 136 million in 2003)

CAF's most relevant accomplishments in 2004 included:

- Supporting Latin America's economic recovery and regional integration efforts with record approvals of over \$ 3,500 million in operations for both the public and private sectors, especially in infrastructure and social development projects;
- Approving technical cooperation grants in the amount of \$ 38 million to support key development components related to sustainability and social equity, especially in the areas of social and human capital formation, competitiveness, governance and support for the most vulnerable social sectors;
- Achieving a record increase in shareholders' equity, as a result of new capital payments in the amount of \$ 226 million and \$ 208 million in net income, which evidence the sustained support of its shareholders;
- Increasing the number of shareholders to seventeen, with the incorporation of the Dominican Republic;
- Maintaining strong credit ratings, as a result of its sustained financial soundness which has allowed CAF to maintain an active presence in the international capital markets;
- Obtaining three awards for its performance in the world's most demanding financial markets: Best Agency Borrower, Best Development Bank Deal and Best Multilateral Bank, from three specialized financial publications: Euromoney, Emerging Markets and Latin Finance;
- Implementing organizational changes to emphasize the corporation's social and private sector strategies, as well as to strengthen its country and regional focus.



Letter from the Executive President

I AM PLEASED TO PRESENT THE ANNUAL REPORT and audited Financial Statements for fiscal year 2004.

This year yielded a generous recovery for Latin America's economies. The dynamic performance of the world economy, the favorable conditions of commodity markets and trade in general, as well as the return of private capital flows contributed to an excellent environment for the region to reach the highest growth rate over the last 25 years, within a framework of internal and external macroeconomic stability.

Given these favorable conditions, during the year CAF approved a record amount of operations, introduced products and services, and continued to promote a renewed development agenda. A central pillar of this agenda is the attainment of sustained high and good quality growth –efficient, employment generating and inclusive- which is essential for improving the living conditions of the poor. At the same time, CAF has continued playing an important role stimulating the region's integration and its insertion in the world economy.

In 2004, CAF once again succeeded in exceeding its operational and financial benchmarks and in maintaining its standing in the international capital markets, thanks to its favorable credit ratings and financial strength. The achievement of these corporate goals was the result of the commitment and support afforded by the governments, by its shareholders and Board of Directors, by the confidence expressed by its clients and, above all, by the aggregate efforts of its staff. To all of them I extend my gratitude for their contributions.



L. Enrique García
President & CEO

The economic environment and regional integration

IN 2004, LATIN AMERICA CONSOLIDATED ITS RECOVERY in a context of limited inflation, external sector surpluses and relative stability of financial and exchange markets. Gross domestic product (GDP) grew by 6.3%, the highest rate of the last 25 years. Unemployment fell to 9.1%, inflation to 6.8%, and most macroeconomic indicators exhibited important improvements¹. A similar situation is present in the Andean countries, with an average growth rate of 8.9%, and one digit inflation in most countries. Latin American economic activity has been driven by a favorable international environment, expansionary economic policies, recovery of domestic demand and, most noticeably, a surge in international trade.

In fact, according to preliminary numbers, Latin American exports increased by 23% in 2004, driven by a terms of trade improvement due to the increase in the price of primary goods, an increase in the volume of world trade and the negotiation and signing of various free trade and regional integration agreements. For 2005 and 2006, a slight reduction in the region's growth rates is expected, to a yearly average of 4%, in line with a moderate deceleration at the global level. In this way Latin America would be recuperating some of the ground lost in the years of recession since 1998.

Main indicators of the Region

	ANDEAN COUNTRIES			LATIN AMERICA		
	2002	2003	2004*	2002	2003	2004*
Real Sector						
GDP (current millions US\$)	263,564	258,300	332,946	1,540,686	1,705,145	1,947,660
Real GDP Growth (%)	-1.0	-0.1	9.0	-1.1	1.9	6.3
Saving (% of GDP)	17.7	19.1	21.3	18.6	19.9	21.6
Investment (% of GDP)	16.5	16.4	17.2	18.0	19.1	21.5
Unemployment (%)	14.1	13.6	11.1	11.2	10.4	9.1
Population (Millions)	117.2	119.1	122.1	473.0	481.1	493.4
External Sector						
Exports FOB (millions US\$)	53,915	57,716	79,080	342,902	373,672	459,359
excluding Venezuela	26,121	29,668	38,611	315,108	345,624	418,890
Imports FOB (millions US\$)	40,401	39,116	49,905	312,774	326,793	371,732
Trade Balance (millions US\$)	13,514	18,600	29,175	30,128	46,880	87,627
excluding Venezuela	-920	893	4,206	15,694	29,173	62,658
Current Account (% of GDP)	1.25	2.70	3.09	0.56	1.50	1.55
excluding Venezuela	-2.27	-1.73	-0.94	0.15	0.96	1.03
Net International Reserves (millions US\$)	34,303	43,829	52,011	152,566	190,032	213,865
Foreign Direct Investment (% of GDP)	2.59	2.62	2.17	2.86	2.04	2.85
Total External Debt (% of GDP)	42.89	41.78	37.28	62.32	54.86	45.00
Fiscal Sector, Prices and Sovereign Risk						
Fiscal Balance NFPS (% of GDP)	-2.1	-1.4	-1.9	-2.8	-2.5	-1.0
Inflation (% , end of period)	13.9	12.4	9.4	16.0	7.7	6.8
Sovereign Bonds Spread (Basic points) a/	881	484	358	1,910	1,815	1,316

Source: Division of Economic Studies, CAF

* PRELIMINARY DATA

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

1. With respect to data and forecasts, Latin America and the Caribbean includes the sixteen countries of the region that are members of the Corporation: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad y Tobago, Uruguay and Venezuela.

In spite of these positive events, there are limitations that restrict sustainable growth in the region. Social indicators have not improved in most Latin American countries, and the region continues to suffer from high levels of poverty and extreme poverty, unemployment and informality, as well as displaying the worst income distribution in the world. Furthermore, one continues to observe, with some differences across countries, political instability, weakness in the state of law and lack of confidence in institutions. Different surveys of public opinion in the region show that, although Latin Americans believe that democracy is the best system of government, unfortunately the majority is unsatisfied with its results.

Furthermore, macro and microeconomic vulnerabilities persist. Some countries exhibit vulnerabilities and procyclicality in fiscal policy, growing public debt (especially domestic debt) and contingent obligations. Moreover, domestic savings continues to be low, which is manifested in shallow financial markets that especially affect small and medium enterprises. Finally, one of the main problems in many of the region's countries is low productivity, a key issue as countries increasingly turn their interest to foreign markets. For this reason it is important that increased presence in world markets be accompanied by an effective strategy of building productive capacity and increasing competitiveness.

Achieving higher economic growth rates that are sustainable in time is a necessary and urgent condition to begin transforming Latin America. Furthermore, to achieve equitable and sustainable development it is necessary to promote the inclusion of minorities and of the poorest individuals of the region, and to push social policy towards the achievement of equal opportunities for all.

These tasks must necessarily be accompanied by actions to reduce risks. In fact, the sustainability of economic recovery in the region will depend in part on vulnerabilities faced in foreign markets. Among others, one must take into account the effect of increased international interest rates, of a possible fall in commodities demand and prices, and of the impact of increased energy costs on global economic activity (independently of the benefits of increased oil prices on exports in some of the region's countries).

Even in the face of the above mentioned challenges, the prospects of growth in Latin America are positive, driven by favorable world economic conditions and high commodities prices. This trend could be reinforced by the renewed dynamism of regional integration and free trade agreements. In this context, there appears to be a window of opportunity to apply key structural reforms aimed at reducing external vulnerabilities, improving domestic capital markets, increasing competitiveness and taking advantage of current political leadership to strengthen governance and democratic institutions.

International environment

Latin America's positive performance is due largely to the presence of a favorable international environment, explained by the sustained recovery of the principal industrialized economies. In 2004, the United States in particular continued to lead world growth with a GDP growth rate greater than 4%. In Japan, despite the weak performance of the last two quarters, the economy managed to grow 2.6%, the highest rate since 1996. In the case of Europe, recovery has been more modest, due in part to the appreciation of the Euro which has affected the external sector.

The case of **Spain**, member of CAF, deserves special mention, having achieved in 2004 a growth rate of approximately 3%, above the European average. This growth was achieved in a context of low inflation and fiscal policy that was both prudent and successful, results that allowed Spain to comply with the rules of the EU Stability and Growth Pact with room to spare.

One of the most important factors of the dynamism of the world economy has been the sustained growth experienced by China, that has been growing at an average rate of 9.5% since 1978 and is expected to continue growing at rates near 8% in the next few years. This has been an important factor for world trade growth, especially in the case of the Asian economies.

In this context of increased growth, financial market conditions have stabilized after the volatility of recent years. According to recent estimates by the IMF, net private capital flows toward Latin America and the Caribbean have increased from \$31,8 billion in 2003 (the lowest level in recent years) to an estimated \$38 billion in 2004. In any case, foreign direct investment levels in the region remain far from the peaks reached in the nineties, when increased investment appeal coincided with the initial enthusiasm generated by the implementation of reforms inspired by the so-called Washington Consensus.

In the same way, the positive trend of private capital flows towards the region has been key in improving access to financial markets. In fact, sovereign risk, measured by the spreads of Latin American bonds, has fallen to levels experienced before the Asian crisis, and near historic minimums. This improvement in financial conditions is largely a result of the extraordinary levels of liquidity worldwide, of low interest rates in industrialized countries –which have begun to increase gradually since the middle of the year–, and of the recovery and positive prospects of the principal Latin American economies.

Increased capital flow availability has been accompanied by a recovery of world trade. World exports have registered real growth rates greater than 8%, above those of world GDP. The vitality of world trade is explained mainly by the demand from Asian developing countries and from transition economies, whose imports have grown by more than 20% in real terms in recent years. Furthermore, China represents a significant share of world imports in products in which Latin America has important comparative advantages (soybeans, iron, copper, wood pulp, among others).

In spite of the favorable international environment described above, a series of vulnerabilities persist in world markets, endangering the sustainability of world growth and the stability of major markets. Firstly, external and fiscal vulnerabilities in industrialized countries, especially in the U.S., in a complex geopolitical context. Important imbalances in the U.S.'s current and fiscal accounts, with a fiscal deficit near 5% of GDP, have caused a devaluation of the U.S. dollar with respect to the Euro and the yen. This tendency could persist in the future.

Secondly, the increase of U.S. interest rates, where the rate on federal funds increased from 1% to 2.25% in 2004, has affected financial costs for emerging markets. This contractionary monetary policy is expected to continue in 2005, which could reduce capital flows to the region and would impair countries' access to capital markets. In the past, increases in world interest rates contributed to the destabilization of some emerging markets. Given the more favorable international environment and the stronger macroeconomic conditions in Latin America, one can expect the effects of a contractionary monetary cycle to be mitigated.

Finally, oil prices have increased significantly in 2004, a result of the tense geopolitical situation which has limited oil production and investment. Moreover, demand has increased noticeably, due largely to greater consumption in China and other Asian countries, and this demand has not been met by new supply. Although high oil prices benefit countries like Venezuela, Mexico, Ecuador, Argentina and Colombia, they also hurt net oil importers (such as the countries of the Caribbean). Furthermore, if current prices were to persist, world growth prospects for 2005 and 2006 could diminish. Nonetheless, although the pressure in oil markets is worrisome, the real effect on the world economy appears lower than in the past, due to greater efficiency levels in the use of energy in both homes and firms.

Economic growth and employment



The member countries continue to define solutions to help them maintain the economic turnaround experienced by the region during 2004.

After the crises that severely affected some of the region's countries in recent years, economic performance in 2004 has been especially positive in Latin America and in the Andean region in particular. To the positive trend exhibited with varying intensity across the region's countries one must add the noticeable recovery of Argentina and Venezuela, and the upturn in Mexico and Brazil, the largest economies in the region. In fact, most Latin American countries grew at more than 3.5% in 2004. This situation will moderate slightly in 2005, with expected GDP growth rates of 4.4% and 4.3% for the Andean region and Latin America, respectively.

These levels of economic activity have allowed an improvement in unemployment levels of approximately 2 percentage points in both the Andean region and Latin America as a whole in 2003-2005. In fact, after closing 2003 with values of 13.6% and 10.4%, respectively, preliminary numbers show a decrease of urban unemployment to 11.1% and 9.1% in 2004. The cases of Argentina, Brazil, Colombia and Venezuela are particularly noteworthy.

Argentina continues to experience a period of important economic recovery, with growth rates above 8% in 2004, which has allowed a reduction of unemployment of 3 percentage points. Exchange rate stability and inflation control have also contributed favorably. For 2005, the economy is expected to grow by 6%. On the supply side, restrictions in the energy sector will be an important fact in the economic dynamism of this coming year. As for financing, the resumption of official flows is of particular relevance for the implementation of the government's financial program and for macroeconomic stability in 2005.

Bolivia has displayed important signs of economic growth in 2004, due mainly to a positive performance in the export sector. The rise in prices of principal export goods has favored this positive outcome. In 2004 growth was 3.6%, and 3.5% growth is expected for 2005. Nonetheless, foreign direct investment was negatively affected by the conditions of political and social instability. Similarly, fiscal weakness continues to be a central problem in Bolivia, even though some improvements have been made through greater tax revenues, adjustments in current spending and larger donation revenues. The financial system, on the other hand, continues to face problems of reduced deposits, portfolio contraction and high levels of nonperforming loans. In the short run, it is important to point out the issue of the new Hydrocarbon Law, which not only will affect the sector's future but also private investment, especially foreign private investment. In the same way, possible advances towards a Free Trade Agreement (FTA) with the US are of relevance.

In **Brazil**, economic activity has recovered in 2004 with an economic growth rate of 5.2%, exceeding the expectation of market agents. Unemployment continues to decline, registering levels below 10%. On the other hand, after a considerable surplus in 2003, the balance of payments current account registered a similar result in 2004, compensated in part by a deterioration of the capital account. The government continues to exhibit fiscal restraint, above the targets set by the stand-by agreement with the IMF. Lastly, in 2005 the Brazilian economy is expected to continue to show signs of recovery in most sectors, with GDP growth in the order of 3.7%, driven by private consumption, gross fixed investment and exports.

Chile's economic recovery continued in 2004, driven by export growth and a surge in domestic private consumption. Nonetheless, this increased economic dynamism has not been reflected in the unemployment rate, which has remained above 8%. On the other hand, capital flows show a negative balance, due to increased demand for foreign assets. At the same time, foreign direct investment was positive, thanks to increased reinvestment of profits generated in 2003. In 2004, public finances were favored by the increased economic activity. Economic growth registered at 5.8% and given the

favorable international environment, 5.1% growth is expected in 2005, if healthy macroeconomic policies are maintained.

In 2004, **Colombia** grew by 3.8%, with growth rates comparable across different sectors of the economy. In the same way, foreign trade grew significantly this year, while in the future performance will depend on the exchange rate, results of the FTA negotiations and oil production. It is important to underline the role of remittances, which have increased drastically, and are currently comparable to oil export revenue. In 2004 the inflation target (set between 5% and 6%) was met, while the fiscal deficit registered at 2.3% of GDP, within the limits set by the agreement with the IMF. For 2005, the forecast is for growth rates similar to those of 2004, a deterioration of the current account, and increased inflationary pressure. In the fiscal arena, the challenges continues to be those of pension reform and increased budget flexibility to guarantee public debt sustainability.

Costa Rica grew by 4.2% in 2004, below the Latin American average and less than the 6.5% rate experienced in 2003. This fall in growth was influenced by the increase in world oil prices, which worsened the current account. Inflation peaked in 2004, reaching its highest level of the past 12 years (13.1%), two points above the initial inflation target. This increase is explained not only by higher fuel and transport prices, but also by the strong increase in food prices. This price increase, compounded by a fall in the employment rate from 51.8% in 2003 to 50.9% in 2004, contributed to increasing the percentage of the population below the poverty line, which reached its highest rate of the last 12 years, passing from 18.5% in 2003 to 21.7% in 2004. A growth rate of 3.4% is expected for 2005, with a fall in inflation to 10%, although much will depend on the political situation and the effects of the FTA with the United States.

Ecuador grew by 6.6% in 2004, mainly thanks to private company oil production and exports, while inflation fell, closing at 2.0%. The current account was positive in 2004, and greater than that of 2003, due to the high price of crude oil and the significant increase in export volume. Nonetheless, the non-oil current account has exhibited a considerable deterioration due to a fall in exports. The Non Financial Public Sector (NFPS) registered positive results, while central government finances continue to exhibit significant structural constraints. Even though macroeconomic prospects are positive, with an expected growth rate of 3.2% for 2005, challenges include increasing competitiveness, cost reduction in energy production, achieving trade agreements and improving the business environment to attract investment. Political instability and an uncertain legislative agenda could interfere with positive economic results.

The economic recovery in the United States and high oil prices in international markets were key elements of **Mexico**'s increased growth (4.4%) and improved foreign accounts in 2004. Fiscal policy achieved positive results, registering an increase in its primary surplus. Control of current spending, together with an increase in investment spending toward unprotected sectors and housing, have accomplished important progress in the social sector. Medium term prospects are positive. Expected growth rates for 2005 and 2006 are 3.9% and 3.8%, respectively. Possible risks are associated with the evolution of the U.S. economy, oil prices, exchange rate volatility and Congressional opposition to the implementation of structural reforms. Nonetheless, commercial policy has been very dynamic, opening new markets for foreign trade.

Panama achieved strong economic growth in 2004, with a growth rate of 5.5%. A deceleration, albeit with a continued positive tendency, is expected for 2005. The medium and long term view is positive, based on the project for the expansion of the Panama Canal. To obtain the necessary investment for this project, credibility in public finances is necessary, a challenge given the weakness of the fiscal situation which has spiraled out of control. Nonetheless, after several years of deterioration, the fiscal deficit slowed down, closing at 2% of GDP in 2004, and a further reduction is expected in the next two years. In the future, pension reform is one of the most important projects in the fiscal arena.

Main Indicators 2004*

	Argentina	Bolivia	Brazil	Chile	Colombia
Real Sector					
GDP (current million US\$)	144,600	8,230	633,300	90,800	94,800
GDP per capita (current US\$)	3,713.4	904.4	3,483.5	5,675.0	2,078.9
Real GDP Growth (%)	8.8	3.6	5.2	5.9	4.0
Saving (% of GDP)	28.4	16.6	21.2	22.4	19.2
Investment (% of GDP)	21.7	13.1	13.1	25.3	17.5
Unemployment Rate (% of total labor force)	12.1	8.7	9.6	7.8	13.2
Population (millions)	38.9	9.1	181.8	16.0	45.6
External Sector					
Exports FOB (millions US\$)	34,453	2,129	96,475	32,000	16,448
Imports FOB (millions US\$)	22,322	1,863	62,779	2,956	15,472
Current Account (% of GDP)	2.8	3.5	1.8	2.1	-1.7
Foreign Direct Investment (% of GDP)	2.2	5.0	2.6	5.0	3.0
Total External Debt (% of GDP)	102.4	63.2	32.6	48.1	41.1
Net International Reserves (millions US\$)	19,650	1,123	53,964	16,100	12,500
Fiscal Sector and Prices					
Fiscal Balance NFPS (% of GDP) a/	2.7	-5.8	-2.7	1.5	-1.2
Inflation rate (end of period)	6.1	4.5	7.6	2.4	5.5
Nominal Exchange Rate (end-period)	2.97	8.04	2.66	555.75	2,354.75
Annual Depreciation (% , end-period)	1.4	3.1	-8.1	-6.2	-15.3
Real Effective Exchange Rate Index (1997=100)	234.2	142.1	168.1	122.4	119.8
Banking Sector and Capital Markets					
Nominal Portfolio Growth (%)	10.7	-5.2	15.0	14.1	10.6
Non-performing Loans (% of Total Loans)	12.8	14.1	n.a.	1.2	3.3
Sovereign Bonds Spread EMBI+ (Basic Pts.) b/	5,166	n.a.	352	79	415
Equity Index in US\$ (1997=100) c/	61.2	n.a.	129.6	126.9	170.5
Social Indicators*					
Poverty (% of population) d/	45.4	62.4	37.5	18.8	51.1
Illiteracy Rate e/	3.0	13.3	13.6	4.3	7.8
School enrollment, primary (% gross) f/	119.6	113.6	148.5	102.7	109.6
Mortality Infant Rate g/	15.0	55.6	27.3	8.0	25.6
Life Expectancy at Birth (years) h/	74.3	63.8	71.0	77.7	72.2

* PRELIMINARY DATA

** DATA 2003

a/ Non Financial Public Sector. For Jamaica Central Government.

b/ Year average. For Chile, Dominican Republic and Uruguay the number presented is EMBI Global.

c/ Data for Paraguay is 2000=100, and Uruguay is May 2003=100.

d/ 2002 data. Chile data for 2003.

e/ Percent of people ages 15 and above. Data for 2002, except for Bolivia, Brazil, Ecuador, Mexico and Paraguay, that are for 2001.

f/ Ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Data for 2001, except for Chile, Mexico and Peru that are for 2000.

g/ Death child's younger than a year, per 1000 live births. Average 2000-2005.

h/ Average 2000-2005.

Costa Rica	Ecuador	Jamaica	Mexico	Panama	Paraguay	Peru	Dominican Republic	Trinidad & Tobago	Uruguay	Venezuela
18,550	29,700	8,220	656,100	13,825	6,640	66,500	18,429	11,580	12,670	133,716
4,524.4	2,255.1	3,090.2	6,248.6	4,361.2	1,088.5	2,375.0	2,084.7	8,759.0	3,693.9	5,103.6
4.20	6.6	2.30	4.4	5.50	2.90	5.1	1.90	6.20	11.30	17.3
23.65	26.0	n.a.	19.9	n.a.	20.30	19.3	23.0	n.a.	13.50	12.1
n.a.	27.3	n.a.	18.4	n.a.	29.3	18.2	29.3	n.a.	n.a.	26.6
6.50	11.0	13.50	3.5	12.0	11,2**	8.8	17.5	9.90	12.10	10.9
4.1	13.2	2.7	105.0	3.2	6.1	28.0	8.8	1.3	3.4	26.2
6311.7	7,553	1600	188,627	5100	1580.6	12,481	5710	5500	2922	40,469
8311.4	7,272	4250	197,157	6630	2224.12	9,797	7954	4300	2944	15,500
3.21	1.3	-10.9	-1.1	-4.38	1.1	-1.1	8.1	10.4	0.9	10.9
3.2	0.4	5.9	4.0	2.4	1.3	2.9	3.5	7.0	2.0	1.0
21.1	39.0	55.9	24.2	47.6	52.0	44.8	33.5	21.0	88.0	25.7
1,918	1,549	1,400	61,500	800	1,170	12,631	602	2,635	2,115	24,208
-1.2	3.4	-5.9	-0.3	-2.0	2.7	-1.2	-2.7	2.0	-2.3	-3.8
13.1	2.0	13.7	3.0	2.3	2.8	3.5	33.5	4.0	9.1	19.2
458.60	25,250.00	61.06	11.15	1.00	6,115.00	3.28	28.50	6.22	26.40	1,918.00
9.5	1.0	2.1	-0.7	0.0	0.2	-5.3	-20.7	1.1	-9.9	20.0
107.9	105.9	107.9	95.3	108.5	177.6	115.3	86.3	89.3	167.6	113.9
25.9	27.2	1.6	14.9	11.0	16.9	-0.2	-6.3	n.a.	-17.0	108.9
10.5	6.3	n.a.	8.4	2.1	8.0	4.1	n.a.	n.a.	7.9	1.8
n.a.	792	n.a.	190	347	n.a.	352	1,199	n.a.	561	576
197.8	58.2	362.2	259.9	127.7	162.1	162.1	n.a.	499.7	46.4	91.8
20.3	49.0	18.2	39.4	34.0	61.0	54.8	44.9	21.0	15.4	48.6
4.2	9.0	12.4	9.5	7.7	8.4	15.0	15.6	1.5	2.3	6.9
108.4	116.9	100.5	110.3	110.0	111.8	121.3	126.1	105.1	108.3	105.9
10.5	24.9	19.9	28.2	20.6	37.0	33.4	34.4	14.1	13.1	17.5
78.1	74.2	75.7	73.4	74.7	70.8	69.8	70.1	71.3	75.2	72.8

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

In 2004 the economic situation in **Paraguay** stabilized, although growth continued to be modest, closing at 2.9%. During this year drought shrank the soybean harvest, the main export commodity, reducing the growth of agricultural GDP to near zero. Nonetheless, the non-agriculture GDP has recovered. The guaraní appreciated by 4% with respect to the dollar, contributing to a significant fall in inflation, which closed at 2.8% compared to 9.3% in the past year. The fiscal situation has improved noticeably: the NFPS consolidated account closed with a 2.7% surplus, a positive outcome which is expected to continue in 2005. Moreover, the government has achieved significant progress in reducing public debt arrears. As long as certain necessary legislative reforms are accomplished, inflation is expected to continue its downwards trend and economic growth rates should remain steady, with a forecast of 3% for 2005.

In 2004 **Peru** continued to grow at a relatively high rate (5.1%), mainly due to strong exports and a recovery in consumer and investor confidence. The government has endorsed monetary orthodoxy and fiscal prudence, contributing to macroeconomic stability. In social policy, which had been restricted by the availability of fiscal resources, initiatives for the improvement of educational quality and access to health services were implemented. In the fiscal arena, the deficit target was achieved in 2004, through greater tax revenues and controlled current spending. In trade, the favorable context of commodities prices continues to drive a substantial increase in both traditional and non traditional exports. The latter have also benefited from current trade agreements. Given the state of negotiations of the FTA with the US, this current tendency in trade accounts may consolidate. The outlook is for a 4.5% GDP increase in 2005.

Uruguay has experienced substantial economic recovery, with a growth rate of 11.3% in 2004, driven mainly by a 32.9% surge in exports. This has translated into a 12.1% drop in unemployment, after having topped 18% in the beginning of 2003. This economic recovery, together with the drop in fiscal deficit to 2.3% of GDP and the stabilization of inflation at 9.1%, has contributed to improving the expectations of world financial markets and country risk. Foreign public debt continued to fall in 2004, reaching 88% of GDP, after having achieved its highest level ever in 2002. In 2005 repayment or renegotiation of this debt will be one of the main challenges of the current administration. For 2005, a 5.3% GDP growth rate is expected, with an improvement in public finances and a fall in foreign public debt.

Venezuela is currently experiencing a period of economic recovery, driven both by oil and non-oil sectors. In 2004, GDP growth exceeded 17%, making Venezuela the fastest growing economy in Latin America, while inflation registered 19.2%. For 2005, 5% GDP growth is expected, mainly driven by oil activity. Economic growth has brought about a fall in unemployment from 18% in 2003 to approximately 11% in 2004. On the other hand, high oil prices in 2004 contributed to generating a substantial trade surplus that, together with exchange rate controls, has significantly increased the level of foreign reserves. In the fiscal arena, the Restricted Public Sector registered a deterioration in its accounts to an estimated 3.8% of GDP, and this is expected to persist in 2005.

As for the Caribbean economies that are members of CAF, **Trinidad and Tobago** present a healthy economic picture, and continue to respond favorably to the dynamism of the world economy, with growth rates of 6.7% and 6.2% in 2003 and 2004 respectively. This growth has been driven mainly by exports (thanks to high international energy prices and new trade opportunities in emerging markets) which grew from US\$ 4,900 million in 2003 to US\$ 5,500 million in 2004. Furthermore, this growth is expected to continue in 2005, with a positive fiscal balance supported by oil and gas production. **Jamaica** has maintained modest growth rates, registering 2.3% in 2005. Hurricane Ivan and the increasing prices of crude oil negatively affected the economy this year, maintaining high levels of inflation (13.7% in 2004, and 14.1% in 2003) and decelerating growth. Inflationary pressures intensified as a result of agricultural shortages and the high cost of oil imports for the government, which

has made it difficult for the administration to maintain its economic targets. Nonetheless, in 2005 economic recovery is expected, with an increase in growth rates to 3.5%.

Lastly, the **Dominican Republic**, CAF's most recent member, appears to be recovering after a small GDP contraction in 2003 of -0.4%, brought about by the world economic slowdown. In 2004 moderate growth (1.9%) was achieved, in spite of a severe energy crisis and a growing fiscal deficit (the Central Government deficit was 5.8% of GDP). For 2005, the outlook is for the trade surplus to continue, given the current tourism boom and the effect of free trade zones, for capital flows to return, and for oil imports to decrease.



An important factor in the economic recovery of the region was the increase in the price of basic export goods during the year.

External sector

As mentioned above, in 2004 the external sector was a key element of the region's economic performance. It is well known that the recovery of the global economy and sustained growth in China have resulted in highly favorable conditions with respect to commodities prices. Together with falling levels of sovereign risk (to be discussed below) and the recovery of capital inflows, this has been an important factor of economic growth for Latin American economies, as well as of important improvements in trade and current account balances (as in the case of the Andean region).

In fact, in 2004 exports grew by 23% in Latin America and 37% in the Andean region. Imports also grew substantially (although with rates lower than those of exports), responding to economic recovery in the region and the effect of the rise in oil prices in oil importing countries. Together, these trends have permitted a substantial improvement in the Andean countries' current account surpluses, which have increased from 2.7% to 4.3% of GDP, far from the deficits of the mid nineties which contributed to crises in some of these economies.

In addition to the favorable context of commodities prices, the region has advanced in the negotiation and signing of various trade agreements. Among these, special attention should be given to the fact that a number of Andean countries have joined MERCOSUR, while negotiations are underway for a Free Trade Area between the United States and Colombia, Ecuador and Peru, with Bolivia participating as an observer country. The issue of increased trade presence will be discussed with greater detail in another section.

Public finance and debt

Fiscal management has improved in most Latin American countries, as a result of both a more stable macroeconomic framework and the implementation of fiscal responsibility laws. In fact, the region's global fiscal deficit fell from 2.5% in 2003 to 1% in 2004. The improvements in Argentina, Chile, Ecuador, Mexico, Paraguay and Peru have been particularly noteworthy. Although deficit levels remain high, it is important to underline the efforts aimed at reducing fiscal deficits in Brazil, Bolivia, Colombia and Uruguay. Nonetheless, in Venezuela, fiscal accounts have deteriorated, where a higher than expected deficit was registered.

The improvement of fiscal account across almost all of Latin America has favored a reduction in public debt from a maximum of 77.1% in 2003 to 70% in 2004 (although in Argentina, Bolivia, and Uruguay debt continues to top 85%). This has helped improve the perception of risk in the region; in fact, the principal international agencies have increased the sovereign risk qualifications of various Latin American countries. Furthermore, this has contributed to improving access to capital markets. As mentioned above, in 2004 sovereign risk, measured by EMBI+, closed at around 200 points less than the peak reached during the year and has again fallen to historic lows.

In spite of this improvement, the level of public debt remains high compared to other emerging economies, and the rapid growth of domestic debt warrants caution. Latin America differs from other emerging economies in that very few countries are investment grade. In general, this is due to the fact that our countries continue to suffer from various problems and sources of fiscal vulnerability, among which the most prominent are high levels of public debt, high provisional costs, fiscal rules that are either absent or ineffective, low tax pressure, procyclical fiscal expenditure and large portions of fiscal expenditure that cannot be easily reduced. All this, in a framework of relatively limited fiscal institutionalism.

In particular, some countries face important challenges in their fiscal agenda. For example, in Argentina the problem of public debt arrears still needs to be resolved; Bolivia and Colombia suffer from a very high pension load; Ecuador faces significant structural restrictions in its central government finances; and Peru must deal with an inadequate tax base.

Monetary, exchange rate and financial sector

One of Latin America's most important achievements is having kept inflation at relatively moderate and homogeneous rates in most countries. In 2004, inflation registered 6.8%, slightly lower than the 7.7% of 2003. In the Andean region, inflation fell from 12.4% in 2003 to 9.4% in 2004. The improvements in Venezuela and Ecuador contributed significantly to this correction, in marked contrast to the deteriorated, albeit anticipated, conditions in Argentina and Brazil. In general, prudent monetary policy and relatively low levels of fiscal deficits (with some exceptions) have accompanied this tendency of lower price increases in Latin America. In the same way, the success of explicit inflation targeting in some of the region's countries has favored one digit inflation levels.

Similarly, one should underscore the relative exchange rate stability achieved in most countries, in a context of monetary strength and relative stability of international capital flows, especially after the volatility suffered in past years. Nonetheless, many countries are worried about real appreciation, which could have undesirable effects, especially in the external sector. This is the case of Colombia, Peru, Chile and Brazil, where authorities are trying different policies aimed at mitigating the effects of this tendency, including short term capital controls, as in Colombia.

On the other hand, Venezuela faces the challenge of managing its exchange rate controls in a complicated environment of high current account surpluses, external liquidity, expanding domestic demand and inflation levels that, although declining, continue to be high compared to the rest of the region.

Other countries in the region also face important challenges in their monetary and financial agendas. For example, Argentina needs to recover operations in its financial system after the crisis of recent years, while Bolivia faces a reduction in deposits and credit portfolio and increasing nonperforming loans.

The active participation of the public and private sectors is fundamental for the successful implementation of an agenda that contributes to increase the competitiveness of the region's economies.



Competitiveness

The efforts towards greater trade presence and increased export quality could prove fruitless without the support of complementary policies aimed at improving competitiveness in the region. Unfortunately, in this area the outlook is bleak for the region's countries, considered the least competitive in the world. The last Global Competitiveness Report published by the World Economic Forum ranks Latin American countries on average in position 69 among 104 countries (in 2003, the average ranking was 67 among 102 countries). Six of these countries, three of them Andean, rank among the 20 least competitive economies in the world.

The most competitive country in Latin America continues to be Chile, which ranks 22nd after having jumped 7 positions². It is important to highlight that Guatemala, Argentina, Costa Rica, Jamaica, Mexico and Colombia also advanced 11, 7, 4, 5, 2 and 2 positions, respectively, in the global ranking. On the other hand, important losses were registered by Bolivia, which lost 9 positions compared to last year, and by Peru and the Dominican Republic, which both lost 7 positions. Colombia stands out as the most competitive of the Andean countries, ranking 64th, followed by Peru that ranks 67th. Venezuela, Ecuador and Bolivia rank 85th, 90th and 95th, respectively.

Latin America's poor performance is explained by a variety of factors: instability with respect to the "rules of the game", macroeconomic problems such as lack of efficiency in public spending, low levels of absorption of technology and new knowledge, fragile public institutions and lack of public confidence in them, infrastructure deficiencies, and the weight of bureaucratic controls and regulations, among others. From this one can understand that the successful implementation of a competitiveness agenda in the region must include a variety of both micro and macroeconomic initiatives, with the active participation of both the public and the private sector. In the same way, by their very nature these proposals require political support for potentially unpopular short term effects in view of long term or structural economic benefits.

Poverty and social institutions



One of the priorities of the renewed sustainable development agenda that CAF supports in its shareholder countries is to promote the strengthening of the human and social capital of the region.

According to ECLAC data for 2002, 44% of Latin America's population lives below the poverty line, while 19.4% are indigent (not able to cover minimum daily nutrition needs). These numbers entail an improvement with respect to 1990, when total poverty reached 48.3% and indigence registered 22.5%. Compared to 1980, however, the situation has not changed significantly. One important aspect of poverty is the difference registered between rural and urban areas, given that both total and extreme poverty tend to be higher in rural areas. Nonetheless, given that approximately 75% of Latin Americans live in cities, the absolute number of poor is higher in urban areas. Furthermore, the region continues to stand out for its high levels of income inequality. In fact, Latin America is the most unequal region in the world: while the Gini coefficient in 1996-2000 for Africa and the Middle East was approximately 0.4 (out of 1, with 1 the highest level of inequality), Latin America registered 0.53.

Besides traditional indicators of poverty and income inequality, it is important to analyze other variables affecting human capital, the improvement of which can provide a way out of poverty. Particularly important are education and health indicators. The region has accomplished substantial achievements in health during the nineties, especially through the reduction of mortality rates and the increase of life expectancy at birth. As for education indicators, the region is in a relatively good position with respect to other developing regions: the illiteracy rate has fallen 4 basis points during 1990-2001 and is currently the second lowest in the developing world, after Eastern Europe and Central Asia. Another indicator in which the region has performed well is in the gross rate of primary school enrollment, which has increased from 105.6% in 1990 to 129.5% in 2000. In this area, Latin America and the Caribbean rank first in the developing world, ahead of East Asia and the Pacific. Nonetheless, quality of education problems are present, and must be addressed.

Given the complexity and multiple dimensions of poverty and inequality, any strategy tackling these problems cannot limit itself to economic factors but must also take into account political, social

2. Data in this section referring to variations in competitiveness ranking positions were obtained using a comparable standardized sample of 99 countries.

and cultural aspects. Moreover, it is important to include communities in the resolution of their own problems, and to count on a social safety net to help the most needy in times of unexpected shocks, such as natural disasters or unexpected fluctuations in economic activity. For this reason, an efficient way out of poverty and inequality is the creation of opportunities. These opportunities are generated by promoting economic growth, implementing policies that help markets work for the poor, and supporting measures that permit them to acquire or produce assets.

Institutions and governance

The economic results discussed above, together with the troublesome levels of social and labor indicators, have contributed to a sentiment of frustration among Latin Americans, and a questioning of the current economic framework, including the functioning of democracy. The United Nations Program for Development (UNPD) recently published an exhaustive report on the evolution of democracy in Latin America. This document concludes that while important advances have been made in the area of political rights almost everywhere in the region, smaller and more unequal progress has been made in the area of civic rights, and the protection of social rights remains uneven and often inadequate.

Among other causes, these elements contribute to weak governance, which generates high economic costs and inhibits sustained and stable economic growth. Nonetheless, it is important to underline that the popularity of some leaders gives them leeway to move forward with reforms and strengthen democratic governance. For sustainable growth strategies to be viable, a social consensus must be reached, so as to guarantee institutional strength, political stability and democratic governance. Two fundamental requisites stand out among the rest: voice, participation and accountability on the one hand, and the link between government and society, on the other.

In this respect, one of the principal problems characteristic of Latin American democracy in the last two decades is the crisis of political parties, that have lost legitimacy and society's trust as representative agents. According to Latinobarometer, confidence in political parties has continued to fall, from near 20% in 2001 to approximately 10% in 2004. The crisis of political parties stems from the deterioration of their functions of representation and intermediation. A resolution is imperative, given that political parties are fundamental in uniting society, combining and organizing the demand from extremely different individuals and sectors of society, without which representation cannot exist. It is important that the confidence in political parties as fundamental instruments of governance and economic stability be recovered.

Regional integration and increased participation in the global economy

2004 has been an important year for regional integration and trade agreements. On the one hand, many countries have adopted –or are currently negotiating– free trade agreements with the US. On the other, regional integration initiatives have gained strength, in particular with the launching of the South American Union during the Presidential Summit in Cusco, Peru on December 8th, 2004. Moreover, various initiatives and negotiations are currently in progress at both the bilateral and the multilateral level, such as the advances in IIRSA, the Initiative for Integration of South American Infrastructure, and the Plan Puebla Panama for the integration of MesoAmerica. This section will briefly review these processes.

During the year CAF participated actively in various different regional presidential summits where –through the participation of its executive president, Enrique Garcia– it reaffirmed CAF's

support for sustainable development in its member countries and for regional integration, within the framework of a renewed development strategy. In this sense the following summits stand out: the Monterrey Hemispheric Summit, the two Andean Presidential Summits, the two Mercosur Presidential Summits, and the deliberations of the Group of Rio. These meetings were highly important for the definition of a new agenda of regional integration, which include an acceleration of trade agreements, greater stimulus to projects of physical and energy infrastructure, and increased relevance to social and human development agendas in the integration processes. At the international level, CAF's president participated in the European Union, Latin American and Caribbean Summit, in Guadalajara, and in the Ibero-American Summit in Costa Rica.

Currently, many of the region's countries are committed to intensifying trade negotiations and to deepening the process of regional integration, with the aim of increasing and improving their presence in world markets. In this process, the region faces various options: through the multilateral route of the World Trade Organization (WTO), through subregional agreements such as the Andean Community or MERCOSUR, and by turning to non traditional markets, such as Europe and the new global players in world trade (such as China). Furthermore, there is the route of the FTAs currently under negotiation with the US. These different trade options not only are non exclusive, but can actually be complementary. It is important that countries effectively identify the risks and opportunities of each alternative, and that negotiations be framed within a broad view of regional integration, that include the integration of infrastructure (transportation, energy, telecommunications).

After the breakdown of negotiations at Cancun, WTO members have been working to revive the Doha Round negotiations. In 2004, a framework agreement was reached, including important commitments that will serve as the basis for future negotiations. This achievement is key to the future of the Doha Round, given that important themes such as agriculture, market access for industrial goods, services and customs are included. In agriculture, a general agreement was reached regarding the reform of world agriculture markets, through changes in how governments currently protect their agricultural sectors: tariffs, export subsidies and domestic support. For example, the framework agreement implies that for the first time ever WTO members have agreed to abolish all agricultural export subsidy mechanisms and reduce domestic agriculture support within a set deadline.

Conversely, faced with the delays of the multilateral liberalization process and the reduction of scope of ALCA, various Latin American countries have been negotiating FTAs, especially with the US, as a strategy to increase trade presence in world markets. Unlike FTAs negotiated in past decades, these modern agreements include not only trade obligations, but also commitments in areas of domestic reform. Recently, Chile and the Central American countries have signed agreements of this type. Currently, Colombia, Ecuador, Panama and Peru are negotiating an FTA with the US, with Bolivia participating as an observer. One of the main benefits from trade agreements with industrialized countries stems from the creation of positive international linkages, through increased participation in global production chains and foreign direct investment. Nonetheless, it is important to stress that the benefits of FTAs alone are not enough. In fact, the implementation of complementary reforms is key, for example reforms aimed at guaranteeing greater competitiveness (labor, tax and customs reforms) and at developing innovative capabilities and technology adoption in the region's countries.

In this context, CAF has been actively supporting the Andean countries through efforts to increase negotiation capacity, facilitate coordination and articulate technical assistance within the processes of negotiation, agreement implementation and the building of productive and trade capabilities. In particular, substantial work has been done towards improving the quality of technical assistance in areas of competitiveness, financing and associative capabilities of small and medium enterprises, and improvement of logistics and infrastructure.

Beyond its role of financial and technical assistance, CAF has been promoting an academic debate over public policies related to development and global market participation. In particular, in 2004 CAF published the book “Reflexiones para Retomar el Crecimiento: Inserción Internacional, Transformación Productiva e Inclusión Social” (“Recovering growth in Latin America: trade, productivity and social inclusion”), as a contribution to the discussion on strategies toward achieving quality growth with equity (*see Box p. 23*).

Finally, the signing of the free trade agreement between CAN and MERCOSUR at the end of 2003 and Mexico and Venezuela joining MERCOSUR as associate members represent important progress in the area of regional integration. These efforts are expected to bring greater intraregional trade, which is important not only to reduce dependency from traditional markets but also to diversify and increase the value added of export products.

Greater progress is necessary not only in the elimination of trade barriers, but also in deepening other areas of integration. Increasing intraregional trade, which remains low in the region, requires not only tariff reductions but also the elimination of bureaucratic barriers and the facilitation of physical integration which would allow a smoother flow of goods, people and capital. In this context, the announcement of the creation of the South American Union and the advances of IIRSA and the Plan Puebla Panama are important milestones in the region’s process of integration.

Cusco, Peru, DIC/08/04:

At a decisive time for regional integration, the leading heads of state of South America created the South American Community of Nations that, no doubt, will deepen synergy among the CAF and Mercosur member countries.





How to regain growth

The first Report on Economics and Development (RED), “Reflexiones para retomar el crecimiento: inserción internacional, transformación productiva e inclusión social” (Recovering growth in Latin America: trade, productivity and social inclusion), was published by CAF in 2004. This document, written by CAF professionals with the collaboration of academics

and intellectuals from across the region,

gathers a series of contributions to the debate on how to achieve sustainable and quality economic growth, capable of improving the standard of living of the people of Latin America. In this way, CAF has been promoting a new development agenda, entailing a more integral approach, and the result of a local effort based on the mutual collaboration of the private, public and academic sectors.

An important aspect of this renewed development agenda is increasing participation in the world economy, a key issue for the region, as mentioned above. In particular, this document analyses the region’s options in achieving a deeper, more balanced, and higher quality integration with the world economy. The proposed strategy is based on three cornerstones. Firstly, the region must achieve greater access to world markets. Secondly, a change in production patterns is needed. Thirdly, the reduction of poverty and social exclusion must be an integral part of a development strategy. Clearly, the proposed agenda must take into account the fiscal, financial and political restrictions faced by Latin American countries.

To increase its participation in world markets, Latin America must make strategic use of all the options of trade integration currently available: multilateral negotiations, preferential agreements, regional integration and diversification of its trade partners. Individual countries’ governments must weigh the costs and benefits of each alternative and opt for those that promise the greatest benefits given the economic, social and political restrictions present.

On the other hand, increased participation in the global economy calls for an effort by Latin American

countries to increase export competitiveness.

Some effective strategies the region’s governments could implement in this direction include export promotion, and the attraction of foreign direct investment through fiscal and financial incentives. The improvement of infrastructure deserves special mention, given that it allows for the reduction of transportation costs and the increase of export competitiveness.

In this direction, governments can use innovative financial and operational alternatives, for example, the use of concessions and of projects with both public and private participation.

The region must diversify its productive base around natural resource clusters. To achieve this, the business climate must be improved, through the implementation of various strategies: reducing the obstacles to the establishment of new firms; increasing labor productivity through an educational and training system that is more in line with firm needs; adjusting natural resource regulation to create incentives for private participation in the sector; and fostering the development of national innovation systems to better respond to firms’ needs for research and development.

This strategy of greater and improved participation in the global economy must be accompanied by an integral social agenda that allows the poor and excluded to take advantage of the new opportunities provided by sustained and high quality growth. In this direction a social strategy based on three pillars is proposed: creation of opportunities through asset endowment and greater inclusion to allow individuals to exploit the opportunities of growth, implementation of an effective safety net to support the most needy in times of crises, and long term policies to prepare future workers through better education, increased access to health services and improved labor markets.

“Reflexiones para Retomar el Crecimiento” does not profess to be a general recipe to apply to all of Latin America. It is in fact more a collection of suggestions based on successful international experiences and best practices in the area of global integration, productive transformation and social strategy. The fundamental purpose is to contribute to the discussion and strategy design of each country.



CAF and the region's social development: comprehensive vision and innovative actions

THE GREATEST CHALLENGE FACED BY THE COUNTRIES OF THE REGION is to defeat poverty and inequality in Latin America. CAF considers the social dimension to be an essential component in its renewed agenda for sustainable development. In this context, CAF and its member countries have a common challenge in structuring innovative, efficient, inclusive and high-impact programs and projects.

The most recent research on poverty and inequality in the region indicates that, despite the progress that has been made, there is still much to be done. In 2004, 42% of the Latin American population lived in poverty and 18.6% in indigence. The concentration of income in the region has increased: at present, the richest 10% holds 36.1% of the wealth (ECLAC, projections 2004).

This lack of equity is even more critical if one takes into account the differences found in indigenous communities as compared to the rest of the population, especially those in rural areas. The obvious disparity in Latin American income is partly due to the poor productivity in agricultural activities that, in turn, represent half of the global productivity.

The chronic malnutrition rate in Latin American children under five is 19%, which delays considerably in their physical and mental development (ECLAC 2003). Furthermore, one out of four Latin Americans does not have access to drinking water or sanitation (CAF 2002).

The priority assigned to the social agenda in the various international summits and forums is not casual. For example, in the Declaration of Nuevo León —issued by the Special Summit of the Americas which took place in Monterrey, Mexico, in 2004— the undersigning heads of state recognize that defeating poverty, hunger and social inequality is the greatest challenge that Latin American countries face in the XXI Century. They likewise feel that in order to improve the welfare of the nations in the region there are three objectives that are closely related to each other and that must be met: economic growth with equity, social development and democratic governance. To do this, they maintain the need to support public policies that seek to create productive employment and greater social inclusion, foster the development of SMEs, promote access to basic education, offer improvements in the field of health and, in general, strengthen the mechanisms to fight poverty within a framework in which all economic, social and cultural rights are taken into account.

The lessons of the past and the results obtained thus far show that new and innovative ways to bring economic development closer to equitableness and to the reduction of poverty are needed to foster sustainable social development. It is necessary to agree upon a development framework that generates alliances in the public and private sectors and civil society, with a long-term vision regarding needs and solutions.

A new understanding between the economic and social sectors will require clear priority agreements. A new alliance should be generated in order to change the perception that financing the social sector is an “expense” and to begin to consider it as what it really is: an investment.

Today, more than ever, the social agendas of the countries call for more social investment in equitable, sustainable and efficient programs and projects, that take into account local and regional needs.

CAF has been deepening its understanding of social issues in the region, which will allow it to develop an agenda based on the needs and priorities identified by all stakeholders. With this strategy, it will be better able to invest effectively in the social sector and to contribute to improving equity and the quality of life of the peoples of the region.

By supporting an integral educational program in the Municipality of Calamarca, Bolivia —aimed at achieving a more participative and efficient education— CAF is contributing to the generation of social and human capital within a framework of more equitableness.

International penetration with social equity: how to make international commerce benefit the poor

At present most Latin American countries view international penetration as an instrument to increase foreign trade, achieve greater growth and improve the welfare of their inhabitants. Whether through multilateral, bilateral or regional negotiations, Latin American governments hope to benefit from the advantages offered by globalization and the conquest of new markets. This strategy is based on the condition that opening trade barriers will contribute to extend the possibilities of production in the countries, and increase the assignment of resources to the Latin American economies to make them more efficient and competitive. Although most of these benefits will occur in the medium and long term, the implementation of this strategy could produce temporary imbalances in poverty, employment and inequality.

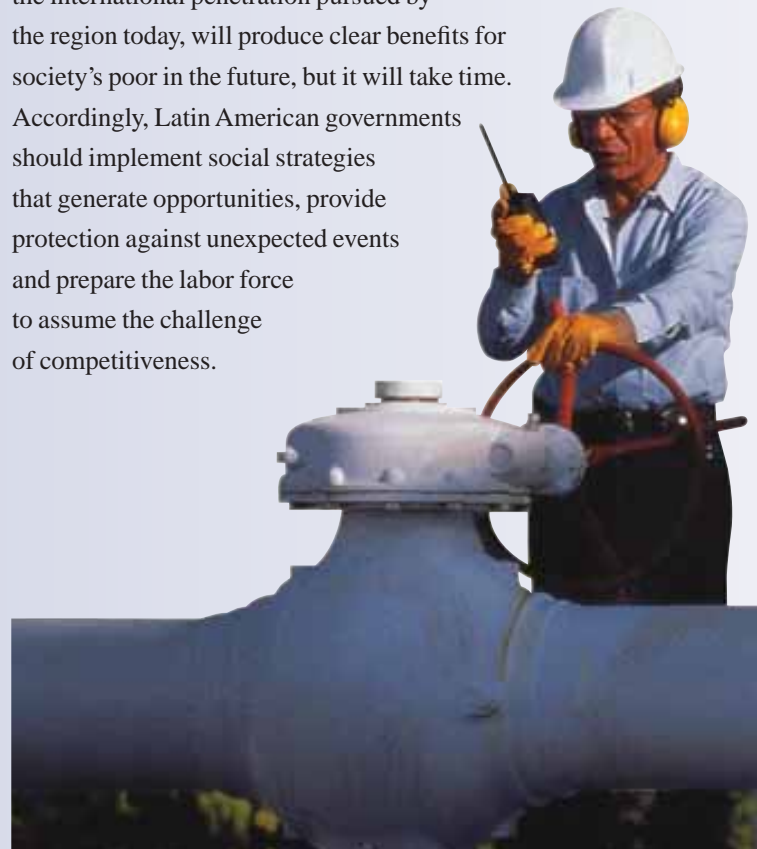
It is necessary to point out that the benefits generated would not necessarily be shared equally among all segments of society. In fact, most of these benefits would be received by the productive factors in sectors with competitive advantages, which in the case of Latin America are in their majority natural resource clusters. Likewise, the income of the more qualified workers will tend to enjoy a larger proportional increase with respect to the income of less qualified workers, which could increase the disparity of income when the gap in salaries widens between the two groups. Furthermore, the development of intensive sectors in the use of capital and technology could also contribute to an increase in unemployment that could merely be a temporary condition if the unemployed workers find employment in other sectors, such as the services sector.

As a result, the international penetration strategy must be accompanied by a social strategy that recognizes the pre-existing problems in the region and prepares the population to respond to the challenges resulting from open trade barriers. Because of the complexity and multiple dimensions of the phenomena of poverty and inequality,

the strategy to attack these problems cannot be solely focused on economic conditions but should also take into account political, social and cultural factors. It is also important to include the communities in the solution of their problems.

Social strategy should provide excluded inhabitants with tools that help them generate wealth and take advantage of the economic expansion resulting from open trade barriers. However, there are risks that are difficult to predict, such as temporary economic crises caused by external factors or the occurrence of natural disasters. In order to respond to these phenomena, it is necessary to count on a comprehensive social security network that would work during difficult times. Governments should also begin to prepare qualified workers to meet the demand produced by future international insertion. This will be achieved by strengthening education, health and the labor market.

In a nutshell, the greater and better the international penetration pursued by the region today, will produce clear benefits for society's poor in the future, but it will take time. Accordingly, Latin American governments should implement social strategies that generate opportunities, provide protection against unexpected events and prepare the labor force to assume the challenge of competitiveness.



CAF's social agenda

CAF has been supporting social development in its shareholder countries for more than three decades and emphasized human sustainable development aimed at reducing poverty as a fundamental component of its strategy in this area. This line of action, expressed through the financing of projects to the social sector, has shown important growth during the past few years. For example, the social portfolio—that caters to the needs of different sectors such as water and sanitation, education and health, agriculture and rural development—reached \$ 2,698 million in 2004.

The increasingly important dedication to CAF's social operations are in line with the design and application of a new development agenda in the region, which stimulates high, sustained and good quality growth and intends to combine three elements that are considered essential by the Corporation: stability, efficiency and equity.

In order to execute the actions of its social agenda, CAF has various types of operations and sources of financing through which it provides innovative and high impact responses to crucial aspects of human and social development.

The main mechanism to support social development is the granting of loans to CAF's shareholder countries, through a balanced portfolio of projects in diverse social areas.

Taking the region's great needs into account, it is necessary to give priority to sustainable, quality and high impact projects and to work in coordination with other agencies involved in social development.

Technical cooperation is another support mechanism that, together with the resources resulting from other specialized funds that CAF has established or manages, contributes to the financing of a diversity of specific projects, programs or other components of this agenda.

Cooperation Funds originate from CAF's own net income or from third-party funds managed by the Corporation. Due to the limited availability of this type of resource competitiveness, integral vision and impact measurement at the beneficiary level cannot be overlooked.

CAF's most important funds, since they finance the greatest percentage of its cooperation operations and activities, are the Technical Assistance Fund and the Human Development Fund (known by its Spanish acronym as Fondeshu). The latter, created in 1997, channels resources that help poor communities develop innovative and productive projects, and contributes to the capital and institutional strength of the financial system that caters to the micro enterprise sector.

Noteworthy is the activity CAF is undertaking as a cooperating institution with the International Fund for Agricultural Development (IFAD), through a project that helps the rural poor and indigenous people to access goods and services necessary for their productive activities (*see Box p. 28*).

Social projects financed with cooperation resources—reimbursable or not—cover the most diverse fields of action: cultural and community development, governance, training, competitiveness aimed at social inclusion, micro- and small-size enterprises, social tourism, health and education, institutional strengthening, relief assistance for damages caused by natural disasters, dissemination of knowledge, education of children and youngsters in the fields of music and sports and social infrastructure, among many others.

Decisive support for social development

As the result of an internal planning process which aims to respond efficiently and systematically, to the requirements of shareholder countries, to optimize social and environmental investment as well as investment in SMEs, CAF's created the Vice Presidency of Social and Environmental Development in 2004. Its vision is to identify, together with the member countries, ways to improve the quality of life in

As a cooperating agency of IFAD, CAF supports the poorest communities

During the last 22 years –on the basis of a cooperation agreement that has served served as a platform–CAF has been complementing efforts with International Fund for Agricultural Development (IFAD) for the achievement of a common objective: promoting productive rural projects, to improve the living conditions of the poorest communities in the countries of the region.

IFAD, a special entity of the United Nations with headquarters in Rome, has a mandate to fight hunger and rural poverty in low income regions, and to improve the means of survival of the poor rural population in a sustainable manner. For this purpose it finances rural development projects that expressly help the poorest sectors –small farmers, fishermen, women in rural areas, landless women farmers, rural artisans, nomad shepherds and indigenous peoples– to increase their income and improve their levels of health, nutrition, education and general welfare, in a sustainable manner. The projects and programs are based on popular participation, thus helping poor farmers to personally assume responsibility for economic and social development. They offer services and opportunities that help them to help themselves, and contribute to the welfare of their families, neighbors and communities.

CAF is an institution that cooperates with IFAD, through the supervision of these projects and programs and the administration of the corresponding loans and donations, in diverse countries in Latin America

and the Caribbean. Specifically, it has handled a total of 30 projects for over \$ 400 million, and it has co-financed five projects: in Bolivia, through loans for \$ 3.9 million for the Camélidos Producers Development Project and the Sustainable Development Program of the Indigenous Peoples of the Beni; in Colombia, a loan for \$ 300,000 for the Rural Micro Enterprise Development Program; in Peru \$ 3 million for the Rural Development Project in Cuzco and Arequipa, and in Venezuela, \$ 2.8 million for the Economic Development Project for Poor Rural Communities.

Likewise, the Corporation is the administrator and co-financier of the Regional Support Program for the Indigenous Peoples of the Amazon Basin (known by its Spanish acronym PRAIA), which this year initiated its third implementation phase with an IFAD grant of \$ 800 thousand and \$ 200 thousand in technical cooperation funds from CAF, earmarked to support conditions and opportunities for survival, cultural defense and strengthening of the indigenous peoples of the Amazons. In its two first phases, PRAIA has supported more than 140 projects in 53 indigenous communities, articulating efforts and diverse experiences in the region and establishing operating alliances with development agencies and other entities. Phase III intends to facilitate a deeper evaluation of the knowledge, culture and other contributions of these peoples in social, environmental and economic terms. Of note is the capability of this program to attract funds, which has made it possible for half of its operations to be executed with financing from sources other than IFAD and CAF.

At present, the Corporation manages 18 IFAD loan contracts, for an amount of \$ 256 million, and supervises the corresponding development projects located in eight Latin American countries (Bolivia, Colombia, Ecuador, Peru, Venezuela, Argentina, Honduras y Panama); their basic intent is to strengthen the organizational capabilities, participation and poor rural community management. In this manner, funds and institutional support, technical assistance, training and other operations are provided to favor the production of food, improve the levels of nutrition and increase the quality of life of the poorest populations of the region.



the region, through programs that may become social and environmental references. The Directions of the Environment, SMEs and Microfinance and Social Development are part of this Vice Presidency.

In this context, CAF seeks—with the participation of the beneficiaries—to finance social programs that foster human development, creating synergies between sectors and stakeholders. As better investments are generated, greater will be the social impact in the region. The Direction of Social Development took over the portfolio of social infrastructure projects that had been previously managed by the Vice Presidency of Infrastructure, and provides more humane dimension with the help of new guidelines. Thus, the drinking water and basic sanitation sector, whose performance was previously measured by the amount of infrastructure generated, is now evaluated as a service that contributes to the social development of the inhabitants of the region.

In order to more efficiently support member countries, it is fundamental to perform a complete diagnosis of the social priorities and needs of the region and to systematically coordinate mechanisms to program social investment. It is for this reason that workshops have been held in the areas of education, water and agriculture and rural development, with the participation of internationally renowned specialists and experts in these fields, as well as representatives of the main multilateral entities that support the region's development. These events generated a valuable space for analysis and discussion, as a basis for an exhaustive evaluation of such sectors.

Social development credits are mainly earmarked for education, health, agriculture/rural development and water/basic sanitation, and their purpose is to meet the following objectives: increase the basic coverage and quality of education, extend the coverage of basic health services, promote rural development by supporting infrastructure construction and productive financing, increasing the coverage of drinking water and basic sanitation, and improving the quality of these services.

Furthermore, in order to improve the impact on the beneficiary population, the following transversal thematic aspects are taken into consideration, and incorporated into the programs and projects to be financed:

- **Territoriality:** since it is the beneficiaries who know best their needs, it is sought to encourage their participation in the solution of their own problems, and to foster local development resulting from productive and institutional reforms that may have a positive impact on the welfare of the population.
- **Innovation:** it is necessary propose imaginative new alternatives to solve persistent problems affecting those inhabitants who are in greatest need.
- **Replicability:** if projects are successful, it is important to consider the possibility of increasing their scope and promoting their replication. It is nonetheless necessary to take into account the social, geographical and institutional contexts before replicating the program or project.

The short- to medium-term objective in the area of social development is to consolidate a high impact portfolio of programs and projects for the sustainable development of member countries. At present, CAF's operations in this area include a portfolio that surpasses \$ 2,600 million, resulting from credits granted in previous years mainly to the water/sanitation, education, rural development and health sectors. It is worth noting that an important percentage of these credits were granted to shareholder countries as multisectoral loans, financial instruments that respond to the needs of diverse sectors of the economy, such as the social, infrastructure and institutional sectors.

SMEs and microfinance: high impact sectors

CAF has always had a special interest in strengthening the micro-, small- and medium-size enterprises (SMEs), considering the significant importance of these economic sectors in the generation of economic welfare with equity. CAF has been supporting SMEs for many years through various types of financial operations and other programs, designed on the basis of the specific needs of each of this types of businesses.

A decade providing support to micro enterprises

CAF has become one of the main stakeholders in supporting the region's microfinancial sector, covering 32 institutions, distributed among nine countries of Latin America. 2004 marks a new stage in micro financial activities, with the highest performance to date in terms of approved credits, number of clients, disbursements, geographical coverage, diversification of operations and the development of new perspectives.

It is worth mentioning that the micro enterprise sector is responsible for the creation of practically one out of every three jobs in the Andean Community and, in some of its most populated urban centers, it employs more than half of the economically active population. The perception of this sector has had an important turnaround over the last years. It has evolved from being considered an unproductive sector of our economies to becoming one of its driving forces. The sector fulfills a notable social function by generating jobs and income in the less favored economic sectors of the region.

Nevertheless, although micro entrepreneurs significantly participate in providing essential goods and services for the economy, less than 2.5% of them have access to financing from sources other than usurers. For this reason, this deficiency should be urgently remedied through efficient and sustainable financial services.

Experience indicates that in order for financial services to be efficiently delivered, they should be generated by specialized institutions. The most successful microfinancing entities are precisely those that only concentrate on microfinance, leaving training and technical assistance in the hands of other entities specialized in this type of support.

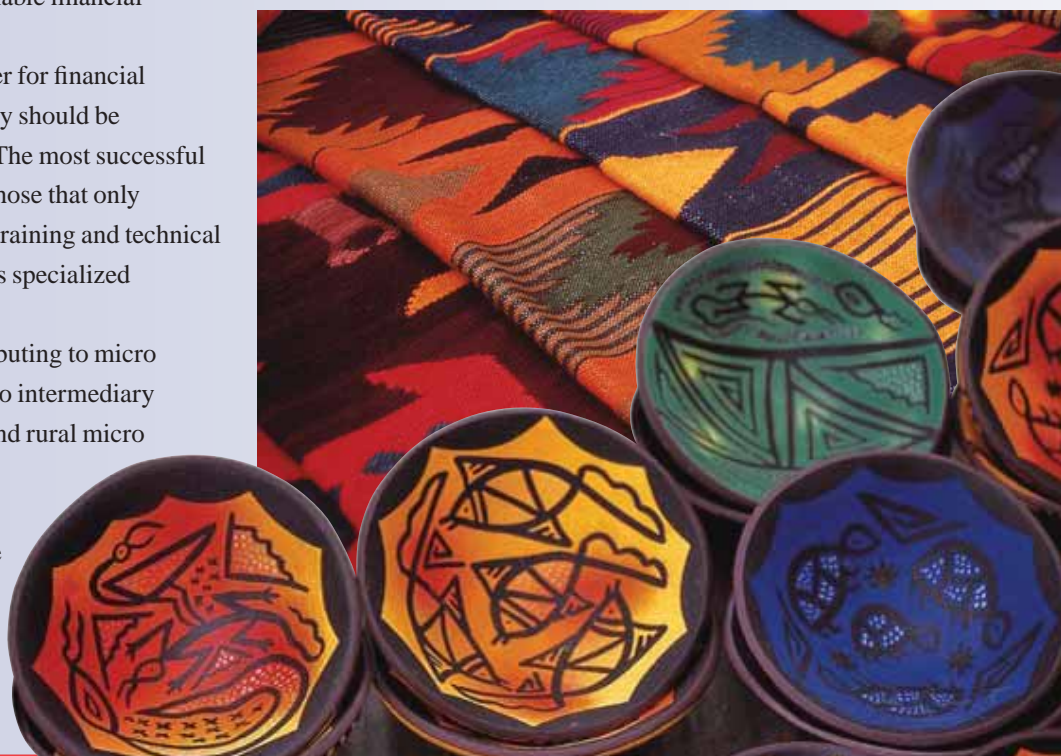
Since 1995, CAF has been contributing to micro enterprises through financial support to intermediary institutions that offer credit to urban and rural micro entrepreneurs, aiming at those institutions that already count with successful technologies and experience in the granting of microfinancial services. It furthermore supports public sector institutions and financial supervisory agencies in the

design and implementation of prudent norms and regulations that help stimulate a healthy competitive market of microfinancial entities. In like manner, CAF has made its contribution in diverse forums and seminars in Latin America, where it has shared its knowledge regarding the most modern practices in the area of microfinance.

Looking into the future, CAF's strategy aims to support intermediary microfinanciers who have the necessary capability to offer deposit and credit services in a permanent and sustainable manner, in order to make it easier for microentrepreneurs to access credit.

The development of the microfinancial markets in those countries where they have not yet been established will be one of the pillars of CAF's strategy. Likewise, it will promote access to capital markets by issuing financial instruments to help them become more competitive and diversify their sources of financing.

The development of a regulatory framework that would allow micro enterprises to take advantage of all its potential and that would guarantee the development of transparent and competitive microfinancial markets, is also an important area of action.



In order to consolidate CAF's activities in these areas, the Direction of SMEs and Microfinance (known by its Spanish acronym DPM), was created in March of this year with the mission to promote initiatives and solutions to sectors with limited access to capital resources.

The DPM is essentially a business unit that supports innovative, replicable, sustainable initiatives that also generate social benefits. The idea is to do business where financial risks are reasonable to improve and foster the development of the targeted sectors.

To effectively carry out its mission in each country, the DPM establishes alliances with clients that share and complement its interest in promoting the development of the SMEs; these include national and local governments, microfinancial institutions, NGOs, trade associations, public and private financial institutions, investment funds and other multilateral entities.

The DPM has three strategic lines of action in which it concentrates its efforts:

Access to capital

Promoting operations that facilitate access to capital for micro-, small- and medium-size enter-

prises is a line of action in which CAF has significant experience. For ten years (*see Box p. 30*), CAF has been catering to the financing needs of micro entrepreneurs, through lines of credit and capital investments in microfinancial institutions. At present there are agreements with over thirty of these institutions in nine Latin American countries, as shown in the attached table.

CAF provides capital investments, financial support for new initiatives and encourages the creativity of small- and medium-size enterprises through the Business Investment and Development Fund for Small- and Medium-Size Enterprises (known by its Spanish acronym FIDE). This risk capital fund makes capital investments in new or already existing enterprises that have technological innovation or operational improvement projects. The FIDE operates in each country through associations with investment funds or similar entities interested in investing in small- and medium-size enterprises. Through these associations, numerous SMEs have received investments for the productive use of information technology, the sustainable use of natural resources and clean energy technologies. Among existing investments are *Negocios Digitales of Venezuela*, *Mercurius Ventures of Colombia*, *Dynamic Equity of Trinidad & Tobago*, *Tahuamanu of Bolivia* and the *Ecuador Country Fund* (*see Box p. 32*).

In 2005, the DPM will develop financing mechanisms to cater to certain private enterprise sectors, such as agriculture, education and health, whose access to capital is traditionally limited. New alliances with entities interested in strengthening the capital structure of SMEs will also be established in order to increase the impact in that business segment. Agreements with financial institutions will also be promoted to co-finance SMEs in countries negotiating free trade agreements, to complement and support their efforts to take advantage of the growth opportunities that will be generated. Likewise, the support to microfinancial institutions will continue and aim at increasing the number of entities and countries being served.

CAF's microfinancial institution clients

Institution	Country
Banco Sol FFP Caja Los Andes FFP FIE FFP Prodem FFP Fassil FFP Eco Futuro	Bolivia
Financ. Compartir Fundación WWB Colombia-Cali Fund. Mundo Mujer Popayán Corp. Mundial de la Mujer Medellín Fund. Mundial de la Mujer Bucaram Corp. Mundial de la Mujer Bogotá	Colombia
Banco Solidario Sociedad Financiera Ecuatorial Credifé/Banco del Pichincha Corfec	Ecuador
Mibanco CM Arequipa Edpyme Crear Arequipa Edpyme Crear Tacna CM Tacna Edpyme Nueva Visión CM Trujillo Edpyme Confianza	Peru
Bangente	Venezuela
Banco IMPROSA	Costa Rica
Financiera COMPARTAMOS	Mexico
Mibanco Microserfin	Panama
Banco Regional	Paraguay
Profund International S.A. Emergency Liquidity Fund	Internacional

Ecuador Country Fund: its importance in the development of the SMEs

Within the framework of generating socially beneficial business, CAF is promoting initiatives and solutions for the SMEs in association with relevant public and private sectors. This is the purpose of the recently created Ecuador Country Fund. It is an innovative financial instrument that provides excellent technical support that will complement the local banks in their efforts to foster development.

This fund will provide capital and quasi-capital to the Ecuadorian SMEs, preferably pro-exporters, that create innovative competitive and high value added products or services, in promising sectors such as information technologies, bio-technology, the agricultural industry and specialized tourism, among others, while at the same time generating employment, equitably distributing wealth, fostering internal savings, attracting investment and promoting changes in culture as well as in the business models. The foregoing is part of a plan that will hopefully generate for the investors returns that are consistent with the level of risk they have incurred. Through this strategy, the Fund will be able to take advantage of the positive

economic expectations for the country, and generate sustained growth and welfare for Ecuadorians.

The Ecuador Country Fund is a joint effort of the government (National Financial Corporation), a local private bank (Banco de Guayaquil), an Ecuadorian investment bank (Merchantbansa) and CAF.

It is worth mentioning that this Fund is only a pioneering vehicle within a new set of instruments created to meet the challenges the SMEs will face in the XXI Century, given that CAF will continue its plan to support structured products that complement banks in their purpose to serve sectors with limited access to financing.

With the presence of the country's president, CAF launched the innovative program, Ecuador Country Fund, aimed at strengthening the capital of the Ecuadorian Pro-export SMEs.



Internationalization and export development

The capability to prosper in an economic environment that is increasingly becoming more globalized, and to develop tools that help SMEs to increase exports, has been the object of CAF's attention for several years.

With these objectives in mind, alliances have been established with universities, trade associations and specialized consultants in the shareholder countries, which have resulted in successful programs for the promotion of exports, and also promoted the transfer of knowledge towards the region.

Among these alliances, most noteworthy is the association of the University of Pennsylvania's Wharton School of Business with the universities of the region, resulting in programs aimed at helping small- and medium-size enterprises of our countries to penetrate the US markets (*see Box p. 34*). Other interesting programs are those resulting from alliances with trade associations, through which the export capability of small- and medium-size enterprises is developed.

In the future, new alliances will be established with institutions that generate value added in strengthening the capability of SMEs and that transfer knowledge towards our region. Emphasis will also be made on initiatives that promote intra-regional trade.

Inserting SMEs support in CAF's Operations

This line of activity seeks to incorporate the strengthening of SMEs in CAF's operations with the public and private sector, to promote corporate social responsibility and to integrate and strengthen production clusters (corporate leaders and their suppliers and/or goods and services distributors), with a view, maximize benefits and to contribute to a more equitable economic development.

The role of the DPM will be to promote best practices and to articulate the process of insertion by identifying the relevant SME sector, by developing relevant products and by linking suitable executing agencies, such as trade associations, NGOs, universities, public sector organisms, consultants, microfinancial institutions and cooperatives, among others.

Strengthening democratic governance

Since CAF is an institution that promotes and strengthens regional integration and sustainable development, it aims to reinforce democratic governance in order to respond to future challenges. Thus, during the last few years it has incorporated new operations into its traditional fields of activity to strengthen institutionality and democratic governance in its shareholder countries.

This decision arose after a reflection process involving several fora with the participation of renowned politicians and intellectuals to evaluate the role of government and the effects of globalization and of political changes that have occurred during the last two decades.

The most relevant conclusions of these fora included the need to innovate in promoting democratic culture and ethical values in all sectors of society and to support institutional strengthening and decentralization as well as citizens' participation. Such activities should also reinforce the objective of sustained growth with stability, efficiency, equity and solidarity in the shareholder countries.

In order to implement these recommendations, in 2001 the Direction of Governance and Technical Cooperation was created, and democratic governance was defined to mean "an adequate environment to legitimize governmental actions, with the participation of citizens, through institutions having clear procedures and rules, with capability, efficiency, transparency and speed in responding to the demands of its citizens, as part of the balance that should exist between those who govern and those who are governed".

Based on this definition, CAF's guidelines were established in the area of governance and four areas of activity were established, which complement, integrate and reinforce each other.

The first line of action is *ethics and transparency for development*, since there is a need to promote ethical behavior and civic-democratic culture in society.

The second is *institutionality*, whose objective is to strengthen institutions so that they count with efficient, agile and transparent procedures and competent human resources, that help promote the existence of the rule of law.

And thirdly, *decentralization and citizen participation*, seeks to strengthen decentralization processes and the preparation of leaders and their staff at the local level, as well as to create incentives to bring together those who govern with those who are governed, in a way that will contribute to better results for all.

The fourth line of action is *leadership for transformation*, whose objective is to help form a leadership of transformation with civic and democratic values.

In practice, these lines of action are implemented through specific activities in each country through the following four regional programs:

The Governance and Political Management Program, whose objective is to train, at the institutional level, a critical mass of leaders and their staff in government administration and political dynamics. This program is being implemented in alliance with the George Washington University

Alliance CAF–Wharton–local universities: Development of SME export capabilities. The Tesalia case in Ecuador

In 2002, CAF promoted the internationalization of an Ecuadorian beverage business, Tesalia. –whose main products were natural mineral water and sparkling and an isotonic drink– by facilitating its participation in the Wharton Global Consulting Practicum Program (WGCP). Tesalia was the leader in the Ecuadorian market, but at the beginning of the Program its exports were approximately \$130,000 per year, less than 1% of its sales. By 2003, after implementing some of the recommendations of the WGCP and its own strategic adaptations, the company was able to significantly increase its exports to \$ 350,000, and in 2004 the company doubled its foreign sales, exporting \$ 720,000.

The proactive export strategy adopted by this enterprise in 2002 is the result of its involvement in a technological improvement process and of its awareness of the need to seek new markets. Thus, it created an exports department and decided to participate in the WGCP in order to maximize the company's value in the North American market for the next two or three years, with perspectives for long-term growth.

Once the consulting program began, the WGCP team evaluated the market for the products in the company's portfolio, its growth and the local and international competition they face, in order to determine which products would have the greatest potential for success in the US market. At the same time, a demographic and geographical analysis of the markets was conducted in order to define the profile and location of the target segment.

Subsequently, a market penetration tactic was designed, including: a) a distribution strategy to increase the availability of the product to the target segment, b) possible modifications in the product's

attributes to better satisfy the needs of the target segment, and c) advertising and promotional opportunities to better communicate the product's attributes and its availability to the target segment. Secondary sources such as specialized magazines, market research and statistics, interviews, surveys and focus groups were used for this purpose.

As a result, the company developed a comprehensive strategy on penetrating the US market and was able to increase its exports significantly, to establish its presence in more US states, to work with more distributors and to acquire know-how and confidence to export to other countries.

It should be pointed out that the success obtained is the result of a joint effort between the consulting group and the client, since it is necessary for the company to have the structure and the commitment to participate actively during the consultation process and to count on the financial and human resources to help it implement the recommendations and comply with the requirements.

During an encounter organized in the Universidad del Pacifico, Peru, the CAF–Wharton Program brought together successful SMEs with entrepreneurs and institutions associated with this sector.



and local universities in Bolivia, Colombia, Ecuador, Peru and Venezuela. It consists of courses lasting six months, which are given simultaneously at the national level in the five countries. To date, it has graduated eight classes and 1,800 students.

Another important initiative is the Leadership for Transformation Program, which is aimed at natural leaders in their regions. It identifies, selects and educates new leaders, in order to prepare them to exercise their citizenship with civic-democratic values, responsibility and knowledge of their country's reality.

These activities are being carried out in alliance with various educational institutions in Bolivia, Colombia and Venezuela. Plans for 2005 are to implement the Program in the five Andean countries. By 2004 a total of 1,600 natural leaders had been trained in six-month courses.

Another program focuses on the strengthening of local governments in land registration and electronic government; it is being developed in alliance with the OAS and the support of the Canadian International Cooperation Agency. This program, known as Efficient and Transparent Municipalities (MuNet), aims at identifying and transferring the best practices to municipalities in these two areas of activity, through the study of successful experiences in similar socio-political contexts. It has been implemented in 15 municipalities in the five Andean countries.

The fourth program, Tools for Governance and Consensus Building, aims at providing strategic participants of the public sector and civil society, who are traditionally in conflict, with advanced techniques and tools in conflict resolution and negotiation, strategic communications and leadership.

Democratic governance is essential requirement for the region and a priority for CAF. Although short-term results have already been obtained by this programs they will need time and the commitment of all sectors involved for these seedlings to grow strong roots.

Cultural and community development

Sustainable human development also has a local dimension. The well known phrase "think globally, act locally" means that human development takes place in a particular territorial space where the activities of its inhabitants generate dynamics that differentiate some territories from others. The key to human development in specific geographical spaces are communities and their cultural manifestations. Culture and community are two faces of a same coin and both condition the levels of development that can be attained in a specific territory.

CAF has assumed the complex challenge of sustainable human development at the local scale, through a strategy which is being implemented by the Direction of Cultural and Community Development:

Geographical concentration of CAF's operations

The Andean region presents a wide range of seemingly limitless needs when compared to CAF's financial resources. In this sense, it is essential to avoid geographic dispersion when allocating resources. Thus, CAF's operations are concentrated in those territories of member countries where there are minimum conditions to undertake development processes with reasonable possibilities for success. These conditions have to do with the presence of all or some of the following factors: natural endowment, demographic concentration, sense of territorial belonging on the part of the people, an economic base with some linkages to local or national markets, minimum levels of social capital expressed in terms of both local organization and that of existing institutions.

Program focus of CAF's operations

The Musical Education Program is developed at the local, national and regional level. Through this program, CAF contributes to the social inclusion of children and youngsters from underprivileged sectors by using music, as a tool to educate and rescue ethical and civic values in the individual,

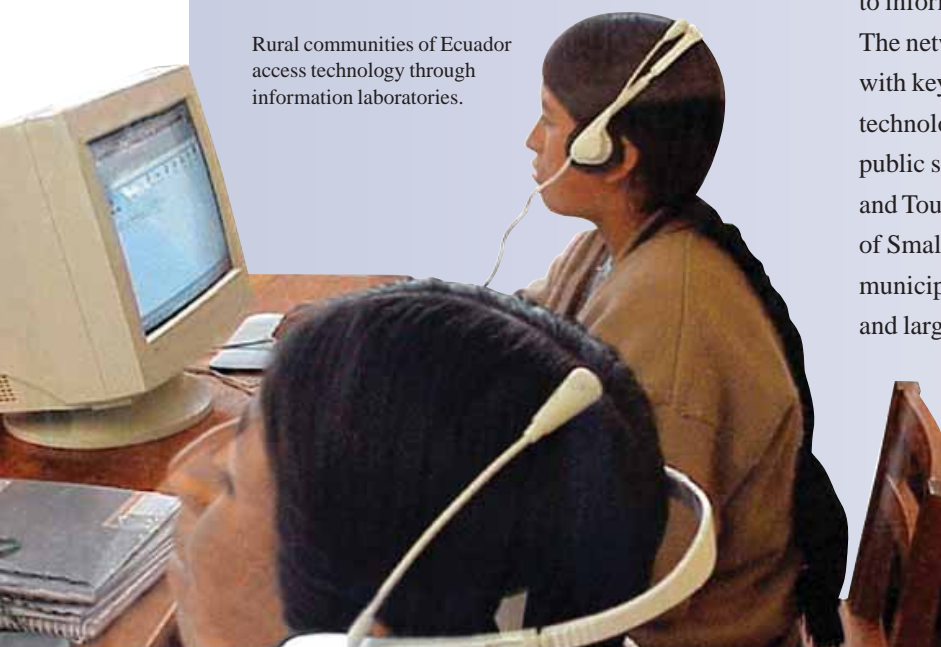
Competitiveness to generate social welfare

CAF's promotional projects and activities in the countries of the region are guided by the firm conviction that the human element is intrinsic in the construction of new competitive advantages: peoples' talents, creativity and skills are the greatest resource on which these countries count to achieve prosperity and reduce poverty. Thus, in this quest for human development within the framework of the Andean Competitiveness Program, CAF has carried out projects to facilitate access information technology and social inclusion and to build confidence and collective skills, as fundamental mechanisms in the creation of opportunities to attain a more equitable development.

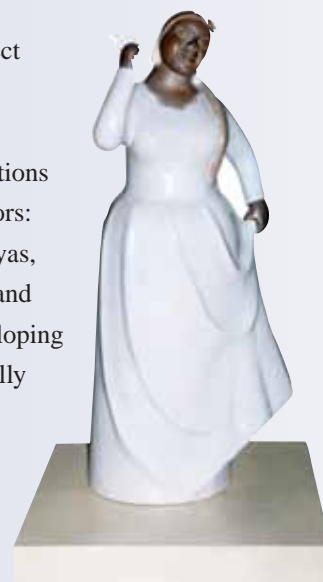
Mobile laboratories: access to technology in Ecuador's rural areas

In Ecuador, CAF has been a pioneer in promoting a project to bring information technology to rural communities of San Pablo de Atenas (Bolivar Province) and Santa Elena (Guayas Province), both characterized by their geographical isolation, through the establishment of the first mobile community learning center –or mobile laboratory– built by Guayaquil's Escuela Politécnica del Litoral de Guayaquil (ESPOL). The project has benefited more than 2,600 students and trained 57 professors, 6 local tutors and 20 community leaders in the use of information technology.

Rural communities of Ecuador access technology through information laboratories.



This project has had a significant effect resulting in the financing of three other mobile community learning centers and thirty-four fixed laboratories with contributions from the public, private and academic sectors: PETROECUADOR, the Foundation for Guayas, the Embassy of the United States, ESPOL, and community schools. In the process of developing the four centers, ESPOL has also substantially improved the pilot center's equipment, by incorporating solar energy panels for the operation of computer equipment and air conditioning, thereby achieving a reduction of 11% in the operating costs of each center.



An export product of a small Ceramics enterprise in Piura, Northern Peru.

The case of association of networks in Northern Peru

CAF has promoted a project articulating 10 networks of small companies around four productive activities in Northern Peru: shoes in La Libertad, artichokes for export in Lambayeque, export quality ceramic tiles in Piura and milk products in Cajamarca. The project –executed by the MINKA Center for Investigation, Research and Promotion of Small Enterprises– has forged productive cooperation networks that have reduced costs and improved access to information and technology.

The networks also involve strategic alliances with key institutions in the development of enterprises: technological development centers (CITE-Cerámica), public sector entities (Ministry of Foreign Commerce and Tourism and the Commission for the Promotion of Small and Micro Enterprises), local authorities, municipal credit and savings banks and medium and large enterprises.

The project has been an important generator of confidence among the participating companies, whose collective activity has allowed them to grow and to better penetrate their markets, to form part of the local web of businesses in some cases, to become more open to the demanding international trade sector.

while strengthening family and community ties. This program is carried out through the Symphonic Youth Orchestra of the Andean Countries, the Itinerant Andean Conservatory (known by its Spanish acronym CAI), the Andean Voices Choir and the Andean Itinerant Lutherie Workshop.

The Sports Education Program channels and develops sports activities as an instrument to promote social capital, promote civic culture and contribute to an education that fosters the values of solidarity and discipline, responsibility and respect, and ethical sports behavior, values which are transferable to the social level in terms of attitudes and collective behavior. This program, in which the private sector participates actively, is executed by well-known organizations such as Academias Tahuichi Aguilera (Bolivia), Colombianitos and Asociación Deportiva Unión Magdalena (Colombia), Fútbol Mentalidad Ganadora (Ecuador), San Juan Guayabo (Peru) and Fundación Santa Teresa (Venezuela). Likewise, an alliance with Special Olympics International, in Peru, has been established to support social inclusion and the participation of special children and youngsters.

In the area of productive and community service management, CAF's efforts are directed towards an active community involvement in the design of projects at the local scale, as well as to improving a culture of productivity and the development of skills in areas such as health, education, community financial culture and community organization. These projects are approached from the perspective of local cooperation, that is, from the management capability of the communities to improve their technical production conditions and access to markets, as well as the availability of sufficient and quality public services.

Likewise, CAF supports the use of cultural heritage as an instrument to transform the collective legacy of communities into opportunities to strengthen their identity and to create alternative economic options. In this regard, CAF supports capacity building in craftsmanship and other practical skills that contribute to increase economic opportunities and employment in these communities.

CAF also supports initiatives to strengthen community organizations in a sustainable manner which allows them to maintain long-term operations, based on principles of participation, transparency and good practices.

Operations driven by demand

The supply of public goods is optimized when there are organized and skilled communities that contribute to guide the supply of those goods and services. Thus, CAF focuses on strengthening community organizations and their capacity to negotiate reasonable conditions for the supply of public goods. In this regard, projects such as Red de Pueblos, in Colombia and Peru; Building Bridges between the Community and Public Health Services and the Integrated Educational Program for the Calamarca Municipality, both in Bolivia, Indigenous Women Building their Future, in Ecuador; or Local Financial Organizations, in Venezuela; are successful examples of demand-driven projects.

Promoting strategic alliances

CAF has been developing a network of strategic alliances with a group of national and international public, private and third-sector organizations, widely recognized for their expertise and ethical commitment to the communities with which they work. These partnerships have brought both knowledge and financial resources, methodological expertise and local execution capacity. Joint action with these organizations adds to the possibilities of success of CAF's investment and it increases its medium- and long-term sustainability. Currently, one dollar invested by CAF attracts three dollars from national and international sources.

Sustainable Human Development Program

The main objective of this program established by CAF in 2002, is to promote more equality in the Andean region by helping the poor to access economic and social opportunities generated by society as a whole—its fundamental mission consists in supporting the construction of social and human capital, with special emphasis on education.

Based on the need for educational reform, with efficiency, equity and increased coverage, the Andean Agenda for Education was set in motion—jointly with the El Tiempo Editorial House—in 2003. It aims at the establishment of alliances with the region's principal newspapers, in order to generate a forum for discussion with civil society on the subject of education and to follow-up on public policies affecting this sector.

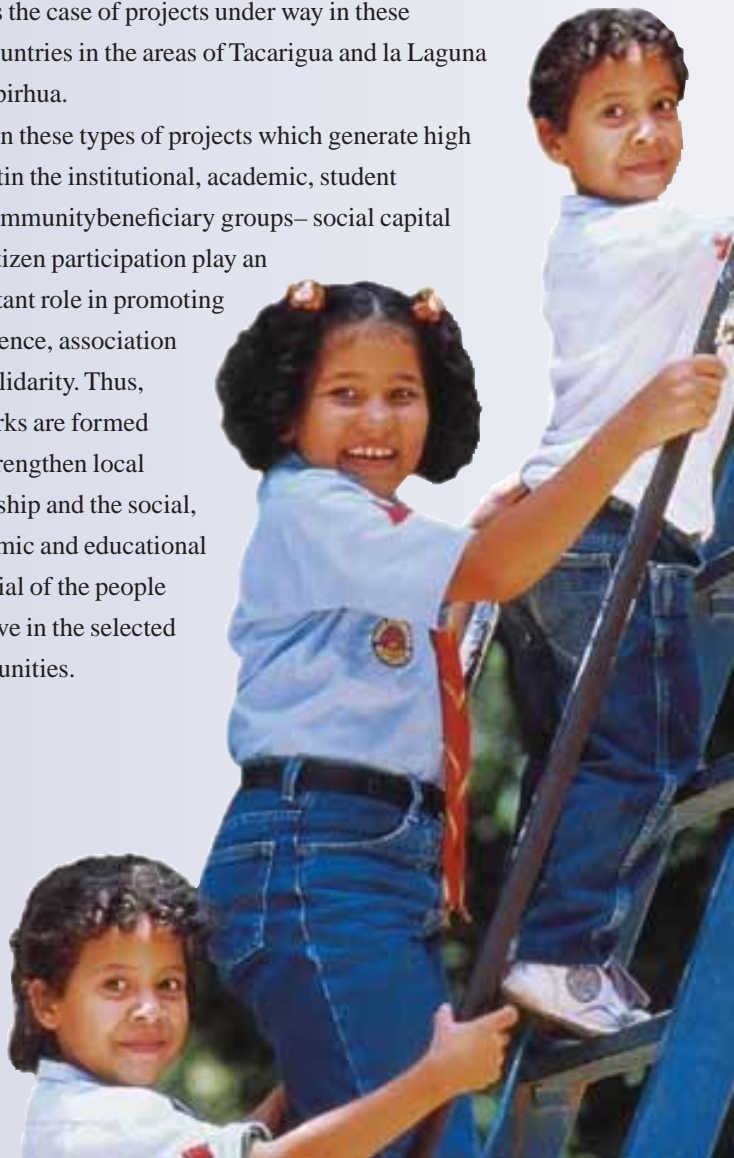
The project has consolidated diverse deliberative groups in the Andean countries, made up of personalities, civic leaders and renowned experts in this field, in association with some of the main newspapers of the region: El Nacional in Venezuela, El Comercio in Ecuador, La Prensa in Bolivia and El Comercio in Peru. These groups promote, debate and disseminate the concerns and interests of civil society in the development of educational policies. In Colombia the project supported, among other activities, the establishment of competitiveness indicators through a national education survey.

A specific result of this initiative is the increase of press articles dedicated to education; and, in Bolivia, a section titled Andean Agenda for Education was created. Furthermore, in 2004, the first round table on Educational Policies and the Communications Media took place in Bogota, and brought together education ministers, former ministers and experts, in addition to directors and editors of the newspapers involved in this project. An analysis of the present state of education was prepared for this event and disseminated throughout the Andean region. A workshop on the Quality of Journalism in the Coverage

of the Subject of Education, aimed to educate journalists and other persons interested in the project, also took place.

Another relevant activity of the Sustainable Human Development Program is CAF's alliance with the IADB's Interamerican Initiative for Capital Stock, Ethics and Development. This alliance has established agreements with Universidad Metropolitana of Venezuela and with Universidad Privada Boliviana of Bolivia with the objective of consolidating the commitment of Andean universities with the region's sustainable development, through the design and execution of interdisciplinary projects in poor communities, such is the case of projects under way in these two countries in the areas of Tacarigua and la Laguna Colcapirhua.

In these types of projects which generate high impact in the institutional, academic, student and community beneficiary groups—social capital and citizen participation play an important role in promoting confidence, association and solidarity. Thus, networks are formed that strengthen local leadership and the social, economic and educational potential of the people who live in the selected communities.



During 2004, several musical events took place as part of the Musical Program for Social Action. In this respect, worthy of note is *The Andes Song Festival with a first presentation at the Teatro Teresa Carreño* in Caracas, Venezuela, with more than 700 musicians on stage and a program that included an Andean regional repertory “a capella” and the fourth movement of Beethoven’s Ninth Symphony. As an itinerant festival, it afterwards moved to the Cities of Bogota and Lima, interpreting Mozart’s Coronation Mass. Performances in Bolivia and Ecuador will take place during 2005, in commemoration of CAF’s thirty-fifth anniversary. Likewise, the creation of the Andean Choir was one of the successful results of the quarterly vocal workshops directed to children, youngsters and local instructors of the countries of the region.

At the symphonic level, the expansion of the Andean Youth Orchestra to include musicians from other CAF shareholder countries was started with the goal of creating the Latin American Youth Symphony Orchestra. In this endeavor, CAF was honored with the presence of Maestro Claudio Abbado, a world renowned figure of contemporary musical art, who led various workshops of the Itinerant Andean Conservatory (known by its Spanish acronym CAI) created by the Corporation. In this manner, an innovative educational model that uses music as a tool for strengthening social capital was validated internationally. The high point of Maestro Abbado’s musical direction took place in a grand encounter with 260 youngsters of the region, with repertory which included Mahler’s Fifth Symphony and Debussy’s “La Mer”.



Performance of the Chiquitanía Corale (Urubicha-Bolivia), directed by Rubén Darío Suárez, within the framework of CAF’s support to disseminate the musical heritage of the Jesuit missions and to strengthen the ethical and aesthetic values of the region’s native population.



Corporate social responsibility

Looking beyond their own performance, companies and institution have an active role in the societies where they operate and where they make significant contributions to the development of their communities. This is what is known as Corporate Social Responsibility (CSR), a business vision that incorporates respect for ethical values, people, community and the environment and that forms part of the success strategies that companies apply today. CSR integrates such programs and projects into permanent corporate policies and, not as occasional responses to the existing social context.

As part of its policies on social responsibility, CAF assigns a preponderant position to its social and environmental agendas. In this manner, through quantifiable efforts in the field of CSR, contributions are being made to reduce social exclusion, inequality and discrimination, and to foster the formation of social capital, improve governance, and contribute to mitigate environmental impacts.

Through the Technical Assistance Fund (TAF) –created in 1980 with funds originating from the net income of CAF’s operations– support is provided shareholder countries by innovative initiatives, within the framework of sustainable development and regional integration, that promote of stability, competitiveness, equity, governance and help mobilize existing capital resources. Together with other funds TAF is an important source of financial support to activities connected to the institution’s social responsibility.

Diverse special programs also aim in this direction. Worthy of note is the Latin American Carbon Program (known by its Spanish acronym PLAC), whose projects for the reduction greenhouse gases contribute to mitigate the negative consequences that climate changes have been causing in our countries.

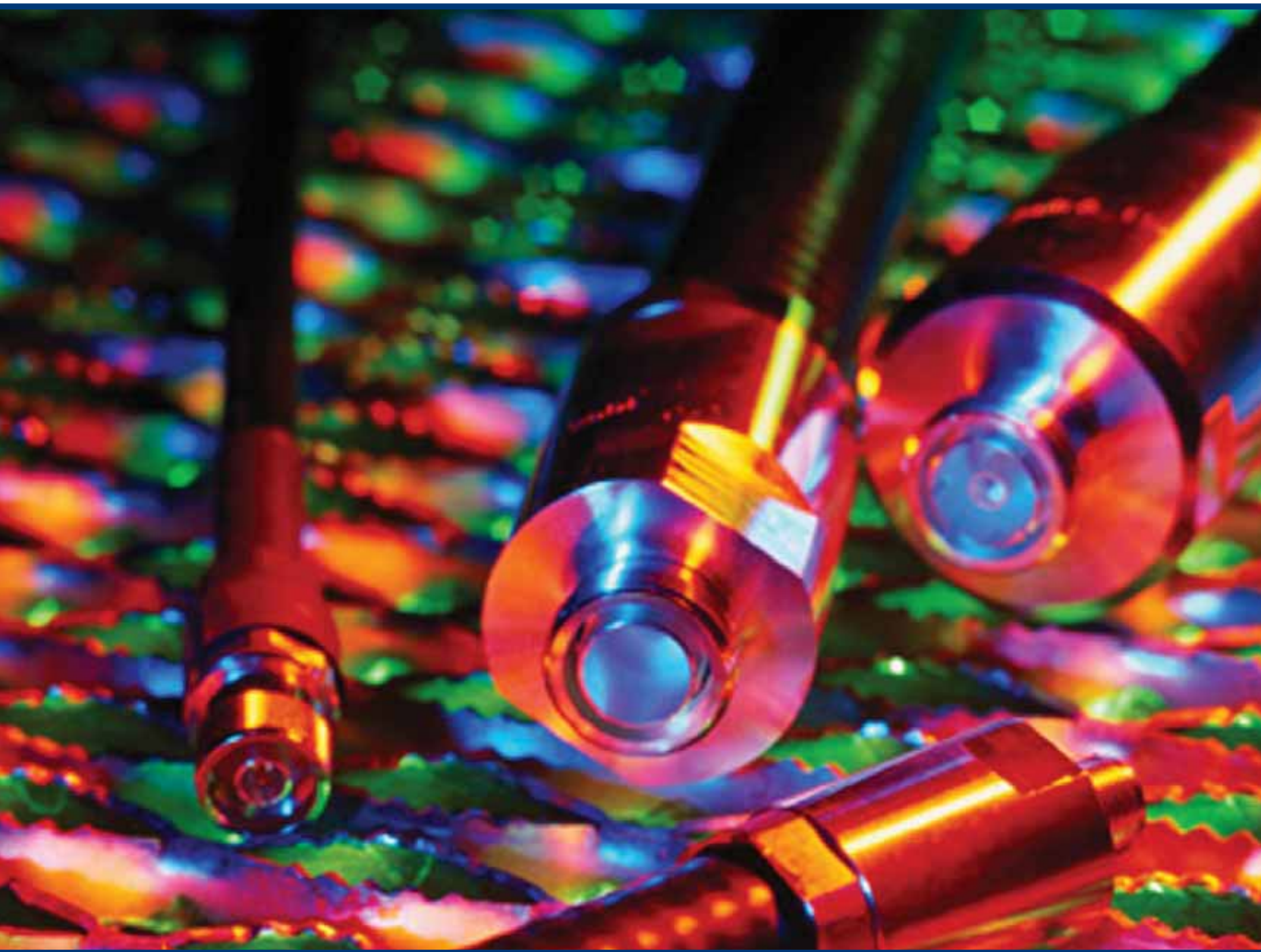
Likewise, CAF is present in community and cultural activities through projects managed principally

by the Direction of Cultural and Community Development, emphasizing the poorest social sectors. Some results of this effort are community development corridors, community management of public services, the Andean Youth Symphony Orchestra and the Children’s Symphony Orchestra.


CAF promotes strategies for dialogue with its shareholders and other interest groups, in order to integrate the ethical dimension into debates on development and decisions on policy and program implementation. An example is the preparation and dissemination of the document: Guidelines for an Andean Code for Corporate Governance, which contains principles of good corporate practices so that companies adopting them may improve their management efficiency, act with transparency and increase their competitiveness at the international level. Training workshops have also taken place to integrate the concept of environmental sustainability in financial institutions, and support has been provide to international seminars such as Journalism and Ethics, the dissemination of values through the Andean Agenda for Education and the publication of books relating to social capital, culture for peace or environmental management, among other subjects related to CSR.

CAF’s corporate culture integrates in to its business ethical policies and practices that responde to CSR criteria. Such a case is the adoption of policies and principles for the prevention and detection of money laundering –contributing to the transparency of information and the reduction of the risks involved in CAF’s operations– or the application of the Internal Guide for Environmental and Social Management in CAF’s Operations, a document that introduces substantial improvements in the evaluation and follow-up of management procedures. These include, complying with the labor legislation of the countries where loans are extended, promoting the development of neighboring communities by loan beneficiaries by supporting sports activities, and the sustainable management of water basins, among others, thus providing an incentive for the development of strong and permanent social capital in the companies that receive CAF’s financing.





Financial and operational analysis

- 
- Operations p. 45
 - Approvals p. 45
 - Disbursements p. 48
 - Portfolio p. 48
 - Technical cooperations and other grant operations p. 51
 - Microfinance operations p. 53
 - Operations by country p. 55
 - Bolivia p. 55
 - Colombia p. 59
 - Ecuador p. 63
 - Peru p. 67
 - Venezuela p. 71
 - Other shareholder countries and multinational operations p. 75
 - Table of approved operations in 2004 p. 79

 - Management's discussion of financial condition p. 81
 - Summary of financial statements p. 82
 - Loan portfolio p. 83
 - Liquid investments p. 84
 - Funding p. 84
 - Capital p. 85
 - Asset-Liability management p. 85

Operations

1. Approvals

CAF's operations for 2004 were based on local and international financial market trends that predicted optimistic economic conditions for Latin America and the Andean region with economic growth projected at 3.7% and 4.3%, respectively. These expectations were surpassed in practice with results of 6% and 8.9%.

CAF approvals totaled \$ 3,503 million in 2004 (see *Table N° 1*) surpassing last year's amounts, thereby reaffirming its condition as a reliable provider of resources for the region, in response to the financial needs of its clients, both public and private. Practically all direct operational goals were highly met, and financing was approved to support macroeconomic stabilization, structural reform, economic infrastructure and social development, governance and social capital, as well as the expansion and modernization of manufacturing plants; the strengthening financial systems in the region, and a variety of corporate trade and financing including working capital, and technical cooperation grants.

Table N° 1

Approvals, by country						In US\$ Millions
Country/Year	2000	2001	2002	2003	2004	2000-04
Bolivia	343	464	503	619	499	2,428
Colombia	773	819	750	617	922	3,881
Ecuador	398	356	407	438	338	1,937
Peru	451	650	498	633	604	2,836
Venezuela	271	738	762	535	821	3,128
Other countries	87	169	371	461	319	1,407
Total	2,323	3,197	3,290	3,303	3,503	15,616

Approvals by tenor

In 2004, more so than over the preceding five years, long-term operations were predominant in CAF's portfolio, with 76% of approvals having a tenor of 10 or more years. This pattern follows CAF's commitment to projects that require long-term financing, as it is one of the few sources of long-term funding in the region and these are necessary to improve the conditions for development.

Medium- and short-term operations make up the remaining 24% of approvals, as shown in *Graph N° 1* and *Table N° 2*.

Graph N° 1

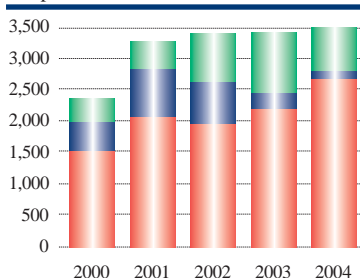


Table N° 2

Approvals operations, by tenor						In US\$ Millions
	2000	2001	2002	2003	2004	2000-04
Long-term loans	1,556	2,020	1,920	2,202	2,682	10,379
Medium-term loans	402	795	625	218	62	2,102
Short-term loans	365	383	745	884	758	3,135
Total	2,323	3,197	3,290	3,303	3,503	15,616

Approvals by risk factor

In 2004, the volume of non-sovereign risk approvals increased by 3% (see *Table N° 3*) reaching \$ 1,172 million at year's end (*Graph N° 2*). Despite this growth, the volume of sovereign approvals continued to an increase, with almost 67% of CAF's total approvals.

Graph N° 2

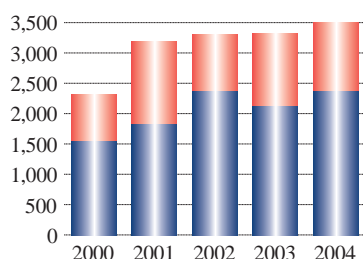


Table N° 3

Approvals by type of risk		In US\$ Millions				
	2000	2001	2002	2003	2004	2000-04
Sovereign risk	1,517	1,841	2,385	2,166	2,330	10,239
Non-sovereign risk	806	1,356	905	1,137	1,172	5,383
Total	2,323	3,197	3,290	3,303	3,503	15,622

Approvals by economic sector

As in the previous year, 2004 saw much demand for resources for the transportation, warehousing and telecommunications, electric power, natural gas and waterworks sectors (see *Table N° 4*) which absorbed 66% of project approvals or \$ 1,815 million, and 51% of total approvals for the year. Most of these resources have been earmarked to improve communications infrastructure and to provide greater access to basic social services for low income earners.

Table N° 4

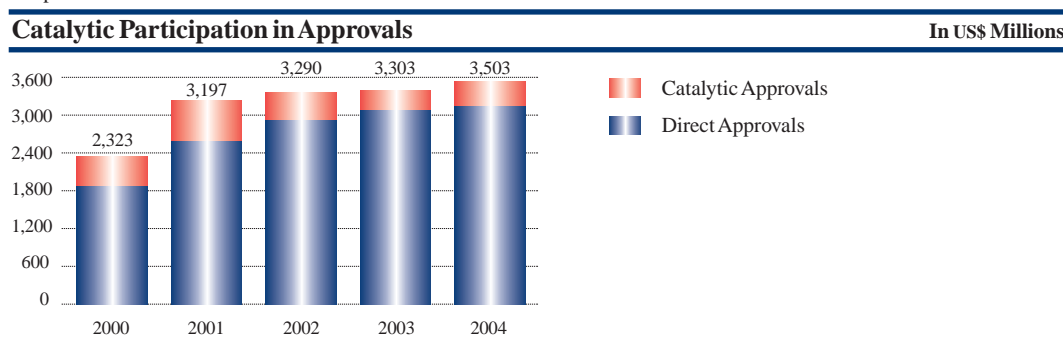
Approvals by economic sectors		In US\$ Millions				
Economic sectors	2000	2001	2002	2003	2004	2000-04
Agricultural infrastructure	58	84	80	51		273
Exploitation of mines and quarries	195			30		225
Manufacturing	60	513	22	281		876
Electric power, natural gas and waterworks	180	618	769	380	626	2,572
Transportation, warehousing and communications	340	672	1,103	1,287	1,189	4,592
Wholesale and retail trade						0
Public sector administration	415	195		172	735	1,517
Hotels and restaurants	23	18	20		2	63
Financial intermediation	331	370				701
Other services and public health	145	296	369	271	199	1,280
Education	169	57	167	40		432
Total	1,916	2,823	2,529	2,512	2,751	12,532

Noteworthy are the road construction and integration projects approved for Bolivia, as well as those in the transportation sectors in Ecuador and Peru, and the construction and improvement of mass transportation networks in Colombia and Venezuela. As regards basic services, major efforts were undertaken in the area of potable water, basic sanitation and irrigation programs in Bolivia, Ecuador and Venezuela. Support was also provided to the public administration of the shareholder countries with approvals of \$ 735 million –representing 26% of total approvals– earmarked for macroeconomic stabilization and structural reform programs.

Financing structure and catalytic role

The cofinancing component of CAF's operations during the past five years surpassed \$ 1,885 million (see *Graph N° 3*) and reflects the Corporation's effort to provide its clients with access to other sources of financing in the international markets.

Graph N° 3



In 2004, catalytic approvals from other sources of financing totaled \$ 150 million and ratified CAF's role as a promoter of investments for the benefit of its member countries.

From another perspective, during the year, CAF ratified its presence in the Andean countries as reflected in *Table N° 5*. Overall financing of projects and corporate loans granted by the Corporation (\$ 2,542 million) increased by more than 8% with respect to the previous year. Likewise, CAF's participation in projects of greater magnitude and longer terms required the participation of sources from outside the region, as well as local financing sources.

Table N° 5

Composition of financing for projects and corporate loans					In US\$ Millions
Financing source	2000	2001	2002	2003	2004
CAF lending	1,471	2,373	2,121	2,359	2,542
Clients' contribution	1,232	1,332	752	3,095	3,087
Other local sources	166	675	92	1,037	680
Extra-regional sources	2,655	1,154	624	3,191	2,650
• International lending institutions	1,221	152	146	1,625	1,453
• Other external sources	1,434	1,002	478	1,565	1,198
Total project cost	5,525	5,534	3,589	9,683	8,959
CAF lending as percentage of total cost	27%	43%	59%	24%	28%

2. Disbursements

By end 2004, CAF had disbursed \$ 2,029 million, including the B tranches of A/B loans (*Table N° 6*). These disbursements had reinforced CAF's commitment to its clients, and its support to investment projects and programs that contribute to the region's development and integration. The vast majority of the resources disbursed (97%, or \$ 1,977 million) were destined to Andean Community Countries.

Table N° 6

Disbursements, by country						In US\$ Millions
Country	2000	2001	2002	2003	2004	2000-04
Bolivia	150	271	365	346	258	1,389
Colombia	818	379	591	325	647	2,761
Ecuador	235	371	221	359	298	1,485
Peru	362	695	413	267	465	2,202
Venezuela	108	719	311	337	309	1,785
Other countries	146	112	284	145	52	739
Total	1,819	2,548	2,186	1,780	2,029	10,361

3. Portfolio

At the conclusion of 2004, CAF's total investment and loan portfolio –including CAF's own operations, the cofinanced component of CAF's portfolio, and credits obtained through CAF's partial credit guarantee program– reached a combined total of \$ 7,799 million and registered an increase of 5% with respect to 2003. Direct operations experimented an increase of 7.5% compared to the previous year, reinforcing the tendency of sustained growth over the last years. (*Graph N° 4* and *Table N° 7*).

Graph N° 4

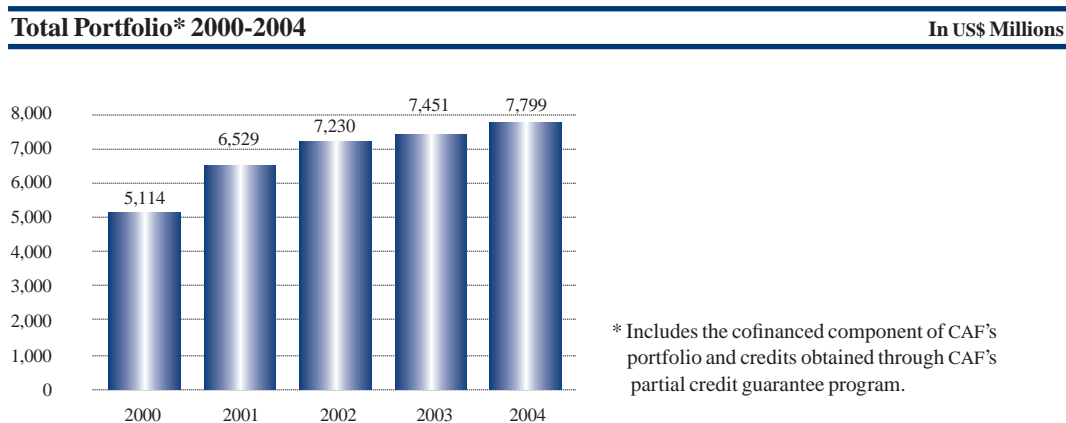


Table N° 7

Total Portfolio*	In US\$ Millions				
	2000	2001	2002	2003	2004
Sub-total CAF's direct portfolio	4,609	5,575	6,180	6,712	7,216
• CAF's Loan Portfolio	4,478	5,455	6,062	6,597	7,104
• Equity investments	131	120	117	115	112
Sub-total catalytic component	505	954	1,051	738	583
• Portfolio under administration	255	700	647	409	280
• Equity investments under administration		4	4	4	3
• PCG-related portfolio	250	250	400	325	299
Total CAF portfolio	5,114	6,529	7,230	7,451	7,799

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Total portfolio by country

As a consequence of the dynamics observed with disbursements, over 92% of the 2004 portfolio corresponds to Andean Community Countries while the remaining 8% corresponds to other shareholder countries and regional operations, as shown in *Table N° 8*.

Table N° 8

Country	In US\$ Millions				
	2000	2001	2002	2003	2004
Bolivia	486	581	703	883	962
Colombia	1,584	1,835	2,122	1,991	2,112
Ecuador	953	1,120	1,122	1,209	1,226
Peru	707	1,112	1,299	1,403	1,664
Venezuela	919	1,406	1,348	1,289	1,219
Other countries	464	475	637	676	616
Total	5,114	6,529	7,230	7,451	7,799

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Portfolio according to operational modality

As shown in *Table N° 9*, during 2004, the long-term portion of CAF's portfolio –mostly in long-maturing infrastructure and social development projects– continued to grow, reaching \$7,041 million, while the medium-term portfolio experienced a contraction and the short-term portfolio experienced a slight increase.

Table N° 9

Total portfolio* by operational modality					In US\$ Millions
Operational modality/Year	2000	2001	2002	2003	2004
Equity investments	131	124	121	119	116
Long-term loans	4,213	5,560	6,151	6,444	7,041
Medium-term loans	259	583	763	748	493
Short-term loans	511	263	195	139	150
Total	5,114	6,529	7,230	7,451	7,799

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Total portfolio by institutional sector

CAF's end-of-year total portfolio is 86% (\$ 6,730 million) comprised of loans to the public sector (*Table N° 10*), and evidences the Corporation's strong support for its shareholders and principal clients. Private sector beneficiaries maintain a 14% share (\$ 1,069 million) of the total.

Table N° 10

Total portfolio* by institutional sector					In US\$ Millions
Institutional sector	2000	2001	2002	2003	2004
Public sector	3,804	4,777	5,719	6,315	6,730
Private and mixed sectors**	1,311	1,752	1,512	1,136	1,069
Total	5,114	6,529	7,230	7,451	7,799

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

** Includes public project financing directly benefiting private enterprises and institutions.

Total portfolio by economic sector

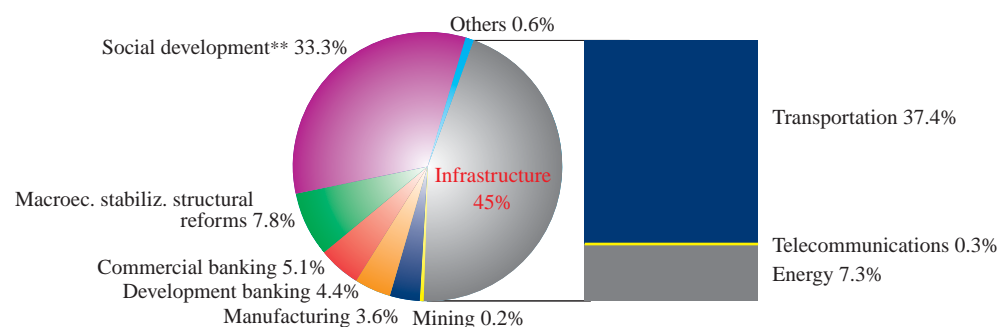
Table N° 11 and *Graph N° 5* show that, in 2004, the infrastructure sectors continued to register the highest demand from member countries, and consequently the one receiving the largest level of support from CAF. Specifically, the portion of the portfolio dedicated to transportation, warehousing and communications, together with electric power, natural gas and waterworks, represent more than one-half of CAF's total portfolio, while the Education, Social and Health Services sector shows the greatest expansion (30%).

Table N° 11

Total portfolio* by economic sector					In US\$ Millions
Economic sector/Year	2000	2001	2002	2003	2004
Agricultural infrastructure	254	201	344	293	271
Exploitation of mines and quarries	40	0	4	34	13
Manufacturing	306	690	511	307	278
Electric power, natural gas and waterworks	1,050	1,396	1,624	1,454	1,015
Transportation, warehousing and communications	1,340	1,525	2,023	2,597	2,942
Commercial banking	517	735	522	319	395
Development institutions	727	611	595	534	346
Education, social and health services	447	561	1,542	1,444	1,879
Other activities	433	810	66	469	659
Total	5,114	6,529	7,230	7,451	7,799

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Graph N° 5

Total portfolio* by economic sector In US\$ Millions

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

** Includes water, education and social & health services.

Equity investments

By end 2004, CAF's equity investments stood at \$ 116 million, and consisted of 27 direct capital investments and participation in funds, specialized in financing diverse economic sectors such as infrastructure, SMEs and microfinance. Capital investments will continue in the future using very selective criteria as to their alignment with CAF's objectives, the quality of the administrators in the case of investment funds and under rigorous risk analysis. Specifically, greater participation is anticipated in financing small- and medium-sized enterprises through the Business Investment and Development Fund (FIDE).

Table N° 12

Total equity investments		In US\$ Millions				
Country	2000	2001	2002	2003	2004	
Bolivia	10	9	10	10	8	
Colombia	4	2	2	2	1	
Ecuador	1	1	1	1	1	
Peru	27	23	16	14	12	
Venezuela	3	2	2	0	0	
Other countries*	86	87	89	92	93	
Total	131	124	121	119	116	

* These amounts correspond to equity participations in various investment funds that invest in Latin America. Thus, a high proportion of the equity investments under the heading "other countries" are made in the Andean Countries.

4. Technical cooperations and other grant operations

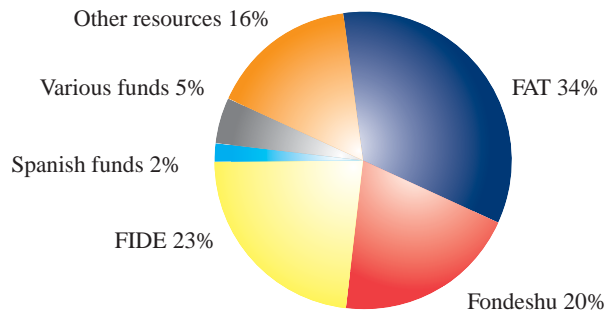
The sources of cooperation funds are the Corporation's net earnings and third-party resources under CAF's administration. They include the Technical Assistance Fund (FAT), the Human Development Fund (Fondeshu), the Latin American Carbon Program (PLAC), the Business Investment and Development Fund (FIDE), the Spanish Funds for Technical Cooperation, the Andean Fund for Energy Conservation (FACE) and KFW (funds managed for Germany's KFW's Mittelsandsbank), as well as the Special Funds for Bolivia and Ecuador and funds assigned to the HIPC Program.

In 2004, CAF approvals with these funds totaled approximately \$ 38 million. As shown in Graph N° 6, the Technical Assistant Fund (FAT) represented the largest share, with 34% of total operations, or \$ 12.8 million. FIDE and Fondeshu were next with about 43% of the funds, or \$ 9 million and \$ 8 million, respectively, followed by “other resources”, directly assigned to the HIPC with 16% of the total (\$ 6 million). The remaining 7%, representing \$ 2.7 million, includes operations with the Special Funds for Bolivia and Ecuador, the FACE, KFW, the Latin American Carbon Program and operations executed with the Spanish Cooperation Funds supporting diverse initiatives for approximately \$ 0.6 million.

Graph N° 6

Origin of funds for technical cooperation and other grant operations

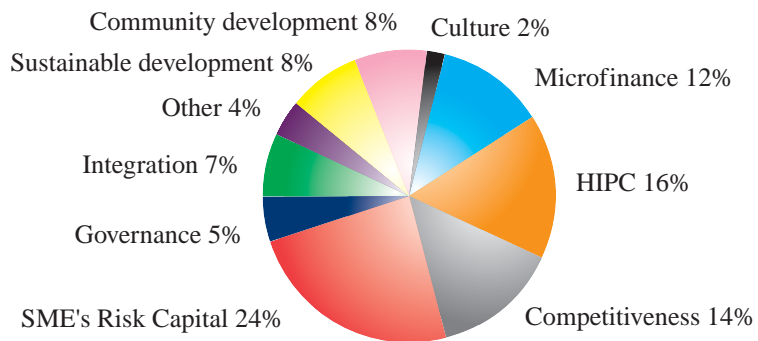
As of December 31, 2004



Graph N° 7 shows the use of cooperations funds by type of activity. Cooperation resources are mainly used in activities such as microfinance, competitiveness and the HIPC initiative, whose proportion will significantly decrease as of 2005. Following in importance are Cultural and Community Development, Sustainable Development and the Integral Support Program to SMEs, that includes CAF’s participation in risk capital funds. Other significant fractions of these resources are aimed at special programs of the Corporation, such as the IIRSA and the Governance Program.

Graph N° 7

Use of funds for technical cooperation and other grant operations



5. Microfinance operations

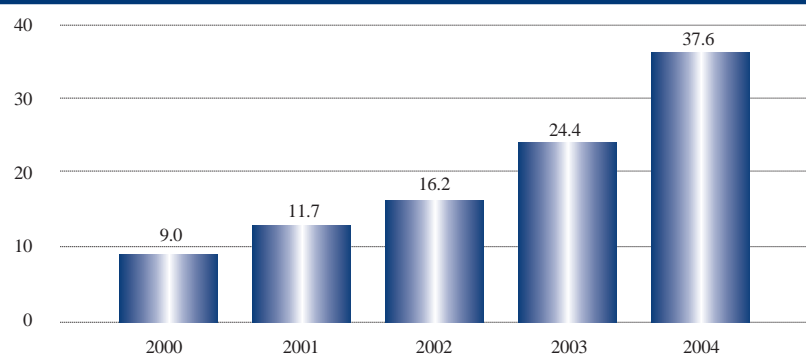
CAF supports micro entrepreneurs through the strengthening and consolidation of financial institutions that channel resources to this important sector of our economies. CAF's operations are carried out in different ways including: providing equity investments and subordinated loans to improve their financial structure, lines of credit to expand their coverage and broaden their loan portfolio, partial guarantees for bond issues to promote diversification of their financing sources and, support and counseling for institutional strengthening.

It is worth mentioning that this year, Costa Rica and Panama joined Mexico and Paraguay, also Series C shareholders of the Corporation, in receiving microfinance operations. Added to the five Andean members, this brings to nine the number of countries that benefit from the diverse modalities of support to microfinance, whose approvals in 2004 were \$ 37.6 million.

Graphs N° 8, 9 and 10, show CAF's high performance in this sector.

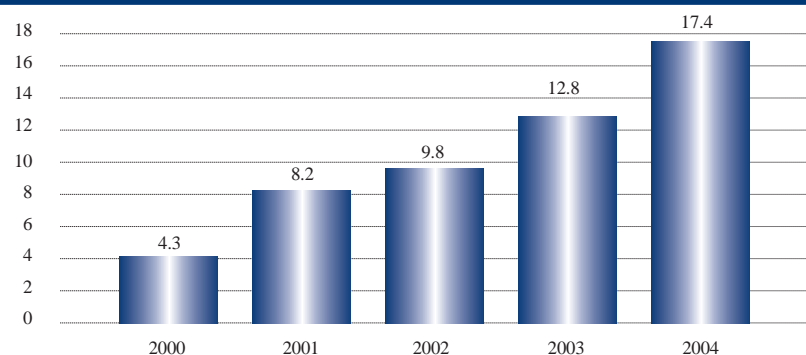
Graph N° 8

Microfinance: approvals + renewals



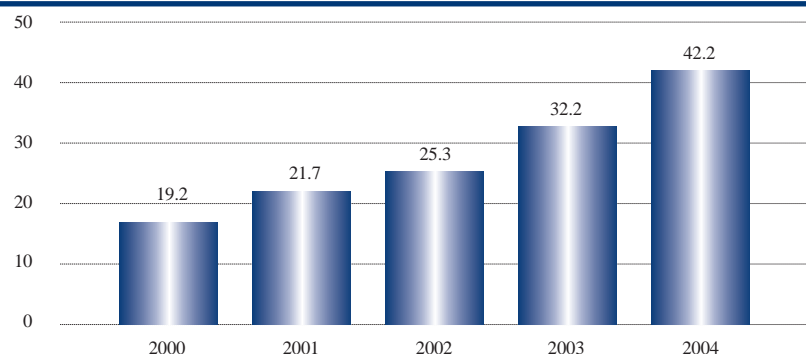
Graph N° 9

Microfinance: disbursements



Graph N° 10

Microfinance: total portfolio*



* Includes loan and investment portfolios and bond issue guarantees.

BancoSol

EXIJA SU FACTURA
TODOS LOS PRECIOS INCLUYEN IVA
RUC 4568303

3





Bolivia

DURING THE PAST FIVE YEARS (2000-2004) CAF has approved an aggregate amount of \$ 2,428 million in operations for Bolivia –resulting in a yearly average of more than \$ 486 million– while, disbursements amounted to \$ 1,389 million, representing 13% of the Corporation's total.

During 2004, approvals were \$ 499 million, representing 14% of the total approved by the institution. Disbursements were \$ 258 million, bringing Bolivia's total portfolio* to \$ 962 million, distributed as follows: 50% went to infrastructure; 25% to support public sector reactivation, investment projects, and trade and working capital loans for small- and medium-sized enterprises; and the remaining 25% went to mining, tourism, agriculture, manufacturing industries, public administration and other sectors of economic activity.

Resources approved this year were assigned according to the priorities established by the Corporation, which include the support of the poorest sectors of the population, improvement of productivity and competitiveness, infrastructure in the transportation sector, structural reforms related to fiscal strengthening and the qualitative improvement of public sector expenditures.

Specifically \$233 million were approved, for basic human needs, the environment and infrastructure, of which \$43 million went to stimulate the improvement of basic services provided by the government to the most vulnerable segments of society, such as health, education, and the provision of potable water and sanitation to a number of cities. By means of an operation involving a loan to the Republic of Bolivia, and a guarantee to the Banco do Brasil as the agency in charge of Brazil's Export Promotion Program (PROEX), \$190 million were channeled for road infrastructure projects that aim to develop the productive potential of a number of regions in the country, and foster physical integration along the borders. As part of the IIRSA initiative, this program will help to complete the road infrastructure network leading to Argentina and the rest of the Southern Cone.

\$120 million were allocated in support of government-sponsored macroeconomic stability and structural reforms. Among these are measures designed to strengthen the medium-term fiscal position through permanent changes in taxation, which are being introduced by the Program for Conversion from the Informal Economy undertaken by the National Taxation Service. To offset the social impact of reduced budget availabilities, funds were earmarked to improve the efficiency and quality of public sector expenditures, with a view to helping the government achieve its poverty alleviation goals.

\$90 million were approved to improve competitiveness, productive activities and the operations of small-and-medium-size enterprises (SMEs) by means of a number of operations with the private sector. They include the construction of electric power transmission lines for \$23 million, helping to improve the national power grid and thereby to increase the efficiency and reliability of the service. \$67 million were approved in lines of credit for trade, working capital and investment projects of small- and medium-size enterprises. In addition, several initiatives were developed to improve access to credit by SMEs and micro-enterprises. For the latter, specialized lines of credit through intermediary institutions were increased by \$5,4 million to benefit an increased number of microfinance clients. Support was also provided through the Business Investment and Development Fund for Small- and Medium-Size Enterprises (FIDE), to the environmentally sustainable activities of a firm that processes chestnuts for export, and to promote the creation of an export-oriented venture capital fund with local and international public- and private- sector participation.

As part of its strategy of integral support to the financial institutions that cater to micro enterprises, CAF has a line of credit with Banco Solidario de Bolivia (BancoSol), one of 32 institutions through which sustainable development of this important economic segment is stimulated.

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Operations approved for Bolivia. Year 2004

In US\$ Millions

Client and Executing Agency	Operation	Purpose	Amount	Term (Years)	Project Cost
Republic of Bolivia / National Roads Service (SNC)	Southern Integration Highways	Provide all-weather, safe road access within a large area in Southern Bolivia, thereby promoting greater economic activity in the neighboring towns and villages and in the region as a whole.	190	14	256
Republic of Bolivia / Finance Ministry	Support for fiscal strengthening and improved public sector expenditures	Support government policies to strengthen the country's medium-term fiscal position and to improve the efficiency and quality of public sector expenditures.	120	12,5	n.a.
Republic of Bolivia / Finance Ministry	Potable water, basic sanitation, and support for social investment program.	Support the government's efforts to develop social investment projects in the fields of education, health, water and sanitation.	43	15	139
Interconexión Eléctrica, S.A.	Electric Power Transmission Lines	Partially finance the construction of three power transmission lines, and to improve the nation's interconnected power grid.	23	14	77
Various clients	Lines of credit and direct lending to the productive sectors.	Finance foreign trade, investment projects and working capital needs.	67	Various	
Various clients	Technical Cooperation and Fondeshu		6	Various	
Other operations			50		
Total			499		

Other contributions to Bolivia's sustainable development

Technical cooperation resources were used to finance the Corporation's \$6 million contribution to the Heavily Indebted Poor Countries Program (HIPC) for Bolivia and \$6,2 million in a number of operations aimed at helping the public and private sectors in such fields as microfinance, governance, competitiveness, sustainable development, regional integration and culture. The Technical Assistance Fund, Fondeshu, the Special Fund for Bolivia, and the Spanish Funds for Cooperation provided these resources.

In 2004, 178 students graduated in the fourth promotion of the Program for Governance and Political Management, which CAF has been sponsoring since 2001 together with Univalle and The George Washington University. Also aimed at improving governance is the program for Municipal Transparency and Efficiency. Co-sponsored by CAF, the OAS and the Canadian Agency for International Cooperation, this program helps train participants in the best practices of cadastral administration. Yet another effort in the governance area provides training in modern negotiation techniques, marketing of public sector agendas and the use of persuasion through the program Tools for Governance and Consensus Building, which to date has graduated 80 participants. Lastly, the Leadership for Transformation Program provided training to more than 600 community leaders from a variety of areas in the country, equipping them to exercise their citizenship in a responsible manner, with ethical and democratic principles, and with reliance upon empirical methods.

Within the Andean Competitiveness Program, the Neo-Enterprise Foundation was established as the first business incubator in the Department of La Paz. Additionally, the International Subcontracting and Electronic Commerce Project was completed, to help enable public sector entities in their task of promoting Bolivian exports. The Corporation supported the negotiation and signing of the Bolivian Competitiveness Agreements, which set out an agenda of shared responsibility between the private sector and the government to develop a strategy for competitiveness in a number of products, specifically grapes, wines, singanis, hides, textiles, garments, wood, and their respective processing. CAF also concluded agreements with a number of important business associations to promote programs for competitive industrial reengineering and to advance microeconomic reforms that can help lower the cost of doing business in Bolivia.

Social Action for Music contributes to strengthen values that promote social capital.



In the ambit of cultural and community development CAF supported a number of projects to strengthen basic capacities among local actors and promote social responsibility. In this regard, the Musical Education Program continued to prove its usefulness as an instrument to promote social capital through the instrumental, vocal and lutherie activities. Likewise, the Sport Education Program was implemented through clinic and training sessions integrating nutrition, basic skills and others; these were held in Santa Cruz, La Chiquitanía and El Alto. In regard to community management, continued progress was achieved in the productive field, namely in the education of basic skills at La Chiquitanía, tourism in Uyuni, Viacha, Tiwanaku and southern Lake Titicaca. Likewise, in community management of public services, two projects were approved in Calamarca and Morochota, aimed at supporting the organization of the community so that their demand for basic public services of health and education be in line to an intercultural and gender perspectives.

Beside:
The Electrical Transmission Lines Project will reinforce the capacity of the national interconnected system to provide better and more economical service.





Colombianitos



Colombia

DURING THE PRECEDING FIVE YEARS (2000-2004), CAF has approved an aggregate amount of \$ 3,881 million –representing a yearly average of \$ 776 million– while, disbursements amounted to \$ 2,761 million, equivalent to 27% of the Corporation's total.

During 2004 approvals were \$ 927 million, representing 26% of the institution's total. Disbursements made during this year were \$ 647 million, Colombia's total portfolio* was \$ 2,113 million, distributed as follows: 74% for infrastructure, 13% to finance investment projects, and for trade and working capital loans to the business sector, and the remaining 13% for manufacturing, public administration and other areas of economic activity. It is worth mentioning that within the infrastructure projects, approximately 41.6% went to transportation, energy and waterworks, while 32.4% went mainly to the development of social infrastructure: education, community services and health.

The sum of approvals to Colombia was distributed according to the country's strategic priorities, as reflected in the government's public investment programs, and include the participation of private investment, support to macroeconomic stability and structural reforms, and the strengthening of small- and medium-size enterprises.

As regards the attention of basic needs, the environment and infrastructure, transportation approvals amounted to \$ 482 million, of which \$ 150 million involved the improvement and expansion of mass transportation projects, as part of the Urban Development Program of the city of Bogota. Likewise, resources in the amount of \$ 300 million were approved to support private participation in public works construction, within the framework of the 2,500 Kilometers Plan, whose objective is to improve access to vehicular circulation in the national territory with a resulting positive impact in national competitiveness. This private participation was developed under an innovative financial modality that allows the government to defer the public investment payments overtime. In this same area, resources in the amount of \$ 32 million were approved to contribute to the improvement of passenger and cargo transportation conditions through the country's main foreign trade corridor (Bogota-Buenaventura).

CAF's contribution to macroeconomic stability and structural reforms was made through the approval of \$ 250 million to provide support for the government's economic program, one of whose objectives is to improve public finances within the framework of the National Development Plan. This initiative contributed to operations that seek to eliminate tax distortions and permanently increase tax collections, while limiting current expenditures in the Nation's General Budget derived by complying with the pension obligations of the territorial entities.

The financial stimulus provided to competitiveness, productive sectors and SMEs amounted to \$185 million. Regarding small- and medium-size enterprises, support was channeled through a credit facility to Banco de Comercio Exterior of Colombia for \$ 100 million. Likewise, resources were earmarked for the financing needs of working capital and investment plans for \$ 85 million with the participation of nine Colombian financial institutions.

In support of SMEs, diverse initiatives were undertaken to facilitate their access to capital markets and promote their internationalization. The Business Investment and Development Fund for Small- and Medium-size Enterprises (FIDE), in association with other multilaterals, worked in structuring a network of investor "angels" in new biotechnology and biotrade enterprises. A risk capital fund is also being structured and will be capitalized with mixed resources (public, private and multilateral) to finance medium export-oriented companies. In order to stimulate the internationalization of a group of

Children and youngsters occupy an important place in CAF's social development strategies and, through diverse programs –such as Culture for Sports– the Corporation provides them with integral assistance tools to educate and rescue ethical and civic values. Such is the case of the project that is being executed with Fundación Colombianitos.

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

SMEs, Universidad de los Andes was incorporated as an active partner in the Wharton—CAF Program, through which four Colombian SMEs are participating.

Operations approved for Colombia. Year 2004					In US\$ Millions	
Client and Executing Agency	Operation	Purpose	Amount	Term (Years)	Project Cost	
Republic of Colombia / Ministry of Finance	Economic Support Program	Support the government in its effort to maintain macroeconomic stability and strengthen public finances.	250	10	380	
Republic of Colombia / Ministry of Finance and Public Credit / Office of the Mayor of Bogota	Urban Development Program and Urban Transportation System for Bogota (Transmilenio)	Improve transportation infrastructure and mobilization in Bogota.	150	10	415	
Republic of Colombia / National Roads Institute (INVIAS)	Line I tunnel	Improve passenger and cargo transportation between Bogota and Buenaventura	32	12	226	
Fiducia de Mercados de Capital / National Roads Institute (INVIAS)	Roads Infrastructure and Regional Development Plan - 2.500 Km Plan	Improve territorial accessibility and circulation	300	8	600	
Various clients	Trade and working capital financing	Finance foreign trade, working capital and capital goods investment operations	185	Various		
Various clients	Other operations	Technical cooperation and Fondeshu	5			
Total			922			

Other contributions to Colombia's sustainable development

In the area of governance and social capital, \$ 5,1 million cooperation resources were earmarked for diverse projects that are being undertaken in the country. CAF continued supporting actions to strengthen governance. Thus, it continued to execute the Governance and Public Management program with the Universities of Rosario, Bucaramanga and Francisco de Paula Santander, aiming to form leaders and their staff nation wide. The second program: Transparent and Efficient Municipalities –in alliance with the OAS' Development Agency and the Canadian International Cooperation Agency– seeks to transfer the best practices identified in the area of electronic government and cadastre. Finally, through the Leadership for Transformation program trained 460 leaders, providing them with tools to exercise their citizenship with responsibility and with ethical and democratic values.

The Andean Competitiveness Program oriented its efforts towards the conclusion of three strategic projects: 1) Virtual Space of Productivity, integrated by 360 enterprises and 1,115 registered persons, established a web site, www.colombiaproductiva.com, that consolidates the services offered by the country's nine productivity centers; 2) Cluster de Eléctrica y Electrónica prepared a joint product catalog of the products of the twelve associated exporters to Peru and Chile, and 3) National Prospective Program, where three prospective exercises in the areas of packing and shipping for the milk and electrical sectors were carried out. Additionally, an event called Leaders in Corporated Associativity resulted in the collection of nine successful cases and the second phase of the program Exporte.org, was begun to assist companies in the exporting process.

One of the community projects aimed at cocoa production, is benefiting more than 400 Afro-Colombian families.



In the ambit of cultural and community development CAF supported a number of projects to strengthen basic capacities among local actors and promote social responsibility. In this regard, the Musical Education Program continued to prove its usefulness as an instrument to facilitate social capital through instrumental, vocal and lutherie activities. Likewise, the Sports Education Program implemented clinic and training sessions, integrating nutrition, basic skills and others; these were held in Ciudad Bolivar in Bogota and the Wayuu indigenous communities in La Guajira. With regard to productive community management, progress was made in basic skills and craftsmanship; the project Red de Pueblos, has proved a successful tool for building community management capacities in Cundinamarca and 17 of its municipalities. Additionally, CAF continued to support a project aimed at strengthening productive and marketing processes with cocoa-growing families in the Valle del Cauca.



Through local cooperation, the project Red de Pueblos promotes the development of diverse communities in Cundinamarca.

Right:
The Roads for Peace Program plans the execution of infrastructure works to improve transportation in isolated zones affected by conflict situations.







Ecuador

DURING THE PAST FIVE YEARS (2000-2004), CAF has approved an aggregate amount of \$ 1,937 million for Ecuador –representing a yearly average of more than \$ 387 million– while disbursements amounted to \$ 1,485 million, representing 14% of the Corporation's total.

During 2004 approvals were \$ 339 million, representing 10% of the institution's total. With disbursements of \$ 298 million, the portfolio at year-end was \$ 1,226 million, distributed as follows: 58% in infrastructure, of which 42% in the transportation sector, 5% in electrical generation projects and 11% in social development infrastructure projects for water, irrigation, sanitation, as well as in community services, education and health. Of the remaining 42% of the portfolio 21% corresponds to investments and project loans for business, trade and working capital needs, and 21% to manufacturing, tourism and public administration including support to macroeconomic stability.

63% (\$ 213 million) of approvals were in the sovereign risk category and supported projects and programs in strategic areas referred to as *basic needs, the environment and infrastructure and macroeconomic stability and structural reforms*. The first of these areas received \$ 93 million, allocated in support of economic infrastructure integration projects whose objective is to support the country in the development of an efficient and reliable roads system, and incorporate various regions with productive potential to the national economy. \$ 40 million were dedicated to social development infrastructure to improve potable water and sanitation coverage in the municipalities located in the Southern Ecuadorian border. Likewise, resources were earmarked for the Environmental Education Plan, based on clean production technology, and for environmental conservation workshops and the identification of environmental economic techniques in the treatment of sanitation landfills.

\$ 120 million were earmarked for macroeconomic stability and structural reform to support the structural reform strategy for sustained growth with quality, proposed by the Ecuadorian government. This initiative prioritizes the control of public expenditures and the efficient and transparent management of the public debt and seeks to ensure medium- and long-term fiscal, financial and social sustainability. Reforms were also instrumented that were principally aimed at strengthening the oil sector and promoting the participation of the private sector in hydrocarbon operations, as well as providing incentives to new investments in electrical generation that would help to structure a competitive system of tariffs. Strengthening these two sectors is fundamental to achieve better levels of competitiveness in the country. Various other initiatives were undertaken to help adapt the productive sector to the new trade environment resulting from agreements under negotiation.

\$ 121 million were earmarked for competitiveness, the productive sector and SMEs, both through the financial sector and direct loans. Of this total, \$ 73 million were channeled through financial institutions, including resources allocated to microfinancial entities for which lines of credits were increased. The remaining \$ 48 million were allocated to trade, working capital and other corporate investment projects.

Diverse initiatives aimed at facilitating access to capital by SMEs and micro enterprises were implanted in 2004. In alliance with the Banco de Guayaquil, CFN and Merchantbansa, a risk capital fund was established. CAF further innovated in financing microagricultural producers (corn, rice, palmetto), in association with large Ecuadorian agro-industrial enterprises.

Other contributions to Ecuador's sustainable development

During 2004, through the Technical Assistance Fund (FAT), the Special Fund for Ecuador (FEE) and the Human Development Fund (Fondeshu), technical cooperation operations approvals amounted to \$ 4 million, in the areas of governance, competitiveness, integration, cultural development and microfinance.

Through the attention that CAF has been giving to micro enterprises, it seeks to contribute to the generation of stability and equitable economic growth and, therefore, to democratic governance and social peace.

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Operations approved for Ecuador. Year 2004

In US\$ Millions

Client and Executing Agency	Operation	Purpose	Amount	Term (Years)	Project Cost
Republic of Ecuador / Ministry of the Economy and Finance	Fiscal Sustainability Support and International Competitive Insertion Loan	Grant support to structural reform strategy for sustained growth with quality proposed by the Ecuadorian government	120	12.5	n.a.
Republic of Ecuador / Ministry of Foreign Affairs	Potable Water and Basic Sanitation in the Sur Aguasur Frontier Line	Increase coverage of potable water and sanitation services in the municipalities of the South Ecuadorian border	40	15	57
Guayaquil Municipality	San Eduardo Tunnel Project	Improve traffic conditions of the City of Guayaquil within the Roads Infrastructure Improvement Plan being executed by the Guayaquil Municipality.	35	10	74
Guayaquil Municipality	Guayaquil Ground Terminal	Partially finance the execution of the second phase of the Guayaquil Ground Terminal Modernization Project	14	10	20
Ambato Municipality	Bridge on the Ambato River	Partially finance the execution of the "Juan León Mera" bridge on the Ambato River	4	8	9
Enermax, S.A. and Supermaxi, S.A	Enermax, S.A. and Supermaxi, S.A	Corporate Loan for the Construction the "Río Calope" Hydroelectric Central Station	12	6	18
Various clients	Financing for trade, working capital and SMEs	Finance foreign trade, working capital and capital goods investment operations	109	Various	n.a.
Various clients	Other operations with resources of cooperation	Various	4		
Total			338		

Together with the Catholic Universities of Quito and Guayaquil, the Governance Program implement the third edition of the Governance and Political Management Program that seeks to form a critical mass of leaders at the institutional level in public management and political dynamics. More than 200 participants from diverse provinces graduated this year. Through the Transparent and Efficient Municipalities Program, an Automated Land Registration information system (SICMA) was implemented, as well as the Quito municipality Digital electronic government strategy. In the city of Manta, CAF continued collaborations with the development of a cadastral project, and in electronic government through its participation in programs of the OAS' Inter-American Agency for Cooperation and Development (IACD). The Andean Competitiveness Program continued supporting entrepreneurial skills in Ecuador by strengthening the Guayaquil Enterprise Incubator (Incoval), which incorporated four new companies and promoted twelve new entrepreneurial undertakings. The Ecuadorian System for the Formation of Entrepreneurs (SEAFE), is other initiative to reinforce the operation of university pre-incubation business centers in Quito, Loja and Guayaquil. In this area, the development and implementation of entrepreneurial studies, the study material and the education of 33 multipliers are part of the result of a network project carried out by a business incubator, six universities and more than fifteen faculty participants in the project.

Whitin the framework of the US-Andean FTA negotiations, CAF provides technical cooperation to strengthen the Ecuador's negotiating team with the technical tools and strategies at the negotiating table.

As regards cultural and community development, CAF supported a number of projects to strengthen basic capacities among local actors and promote social responsibility. In this regard, the Musical Education Program continued to prove its usefulness as an instrument to facilitate social capital through instrumental, vocal and lutherie activities; a new partnership was forged with Fe y Alegría to include children and youngsters from Quito and Guayaquil. Likewise, the Sports Education Program was implemented through training sessions integrating nutrition, basic skills and others in alliance with Banco Solidario in Esmeraldas. With regard to productive and public service community management, progress has continued—in alliance with the Ecuadorian Canadian Fund—to enhance the organizational capacities of 4,000 indigenous women in El Chimborazo and improve their living conditions through the strengthening of productive and marketing processes and better access to basic public services. Likewise CAF is supporting an additional project in Cayambe, related to the Plan Esperanza—also financed by CAF—aimed at integrating technical improvement of production processes with basic skills in health and education. Lastly, in tourism, a project is being supported in alliance with Esquel, with the objective of creating employment alternatives to indigenous communities.



Photographs at right show the facets of Plan Esperanza II, which involves different projects in community development to benefit the poor.

The Guayaquil Terminal Project arises from the need to build transfer stations for the city's mass transit routes.







Peru

DURING THE PAST FIVE YEARS (2000-2004), CAF has approved \$ 2,836 million in operations for Peru –representing a yearly average of \$ 567 million– while disbursements amounted to \$ 2,202 million, representing 21% of the Corporation's total.

During 2004 approvals rose to \$ 604 million, representing 17% of the institution's total. With disbursements of \$ 465 million, Peru's portfolio* was \$ 1,664 million, distributed as follows: 91% for infrastructure and 9% for mining, manufacturing industries, public administration and other sectors of economic activity. It is worth mentioning that within economic infrastructure, 26% went to the sectors of transportation and energy, while 65% went to social development infrastructure, such as health (52%), education (4%) and waterworks (3%).

44% (\$ 267 million) of total approvals were allocated in support of the strategic area of *basic needs, the environment and infrastructure* which finances of road, economic, energy and social infrastructure maintenance projects. In the water and energy sectors \$ 127 million were assigned for the irrigation of diverse agricultural zones (valles de Olmos, Cascajal, Motupe and La Leche), also allowing for the generation of hydro electrical energy of up to 2.24 GWh. In social development infrastructure, \$ 80 million were assigned and \$ 60 million were earmarked to transportation and energy and financing of other governmental projects.

Two operations were approved for macroeconomic activity and structural reform programs totaling \$ 240 million. With the first (\$ 140 million), CAF supported the government's priority to reduce poverty and unemployment, and to support the sustainability of public finance. Such programs on tail, improved planning, quality of implementation, follow-up evaluation, improved focus and expenditure controls to benefit the poorer populations; improvements are also required in the geographical assignment of resources, and implementation quality and efficiency in following-up social expenditures.

A second initiative (\$ 100 million) promotes strengthening fiscal discipline through the implementation of hierarchical decision procedures, budgetary transparency and the establishment of fiscal rules. As a complement to the improvement of the macroeconomic environment, this operation also supports the Peruvian government's initiative to improve the interaction between the public and the private sector, for example by reducing administrative barriers for businesses within a framework of efficiency and transparency. This approval will contribute to strengthen policies that simplify business creation procedures, as well as, for existing businesses, mechanisms to promote competition and transparency in government purchases, in order to promote private investment.

In the area of competitiveness, the productive sector and SMEs, diverse loans were approved for investment projects, working capital and trade related lines of credit totaling \$ 94 million. In support of micro enterprises and SMEs, CAF approved loans to microfinancial institutions in an amount of \$ 4.1 million to eight of the country's regulated institutions, and also issued a guarantee to back a bond issue by MIBANCO. Also, in support of internationalization efforts and within the framework of the Wharton-CAF Program, Universidad del Pacífico was consolidated as an active partner in the program, allowing for the incorporation of a Peruvian SME and two social content projects to be implemented this year.

Other contributions to Peru's sustainable development

During 2004, through the Technical Assistance Program (FAT), the Human Development Fund (Fondeshu) and other cooperation funds, technical cooperation operations were approved in an

Red de Pueblos Project

CAF promotes the participation of organized communities, as a way to contribute to the consolidation of citizens in a region needing respect, tolerance, reconciliation and governance. The project, Red de Pueblos, which is being executed in Peru and Colombia with CAF's support, is an example of the formation of good leadership and organization.

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

amount of \$ 3 million, in the areas of governance, integration, cultural development and microfinance that make up the strategic area related to governance and social capital.

In the area of governance, the second edition of the Governance and Political Management program was held and graduated 306 participants from the Provinces of Arequipa, Cajamarca, Huancayo, Piura and Lima. The objective of this program is to educate, at the institutional level, a critical mass of leaders and their staff in public management and political dynamics. A second program, in alliance with the OAS' Development Agency and the Canadian International Cooperation Agency, is Transparent and Efficient Municipalities, whose purpose is to promote the transfer of the best practices relating to cadastre and electronic government. In Peru the municipalities of San Borja and Puente Piedra have benefited from the program, as well as the municipal district of Lima through Lima's Metropolitan Cadastral Institute

The program known as Tools for Governance and Consensus Building, which seeks to provide modern techniques in negotiation, marketing of public agendas and persuasion to strategic participants of the public sector and civil society was also initiated, and a group of 80 people graduated during this period.

In 2004, the Andean Competitiveness Program concentrated in the development and promotion of clusters and networks of enterprises and SMEs, mainly focused on the export sectors. Likewise, new projects were started in: 1) productive entrepreneurship, through the support to Pro-Welfare and

Operations approved for Peru. Year 2004						In US\$ Millions
Client and Executing Agency	Operation	Purpose	Amount	Term (Years)	Project Cost	
Republic of Peru / Ministry of the Economy and Finance	Support loan for the Program of Economic Infrastructure and Social Development	Support the government in its priority to fight poverty and unemployment, guaranteeing sustainability of public finance. Promote innovative initiatives aimed at improving social expenditures. Contribute to the financing of important economic and social infrastructure works.	280	12,5	360	
Republic of Peru / Ministry of the Economy and Finance	Support loan for the Program to Strengthen Fiscal Institutionalality and Improve the Business Climate	Strengthen fiscal discipline and transparency through the implementation of an organized process of political decision making and the establishment of fiscal rules.	100	12,5	n.a.	
Republic of Peru / Special project Olmos - Tinajones	Olmos Project, Stage I – Trasvase Works	Provide resources for irrigation to diverse agricultural zones and increase the generation of hydro electrical energy.	77	15	243	
Concesionaria Trasvase Olmos, S.A.	Long-term loan or another operating modality	Partially finance the franchise for the construction of the project's works.	50	15	243	
Various Clients	Financing for Trade, Working Capital and SMEs	Finance foreign trade, working capital and capital goods investment operations	94	Various		
Various Clients	Technical Cooperation and Fondeshu	Various	3	Various		
Total			604			

In the Huaura province, CAF moves forward with the project Red de Pueblos to strengthen local economic productive skills.



Development, PROBIDE, to monitor and supervise recently created enterprises and graduates of the training program, and 2) promotion of an internal agenda in favor of free trade within the framework of the Free Trade Agreement with the United States, by supporting the Business Committee for International Negotiations (private and public sector) the Trade Skills Strengthening Table of the Ministry of Foreign Trade.

As regards cultural and community development, CAF supported a number of projects to strengthen basic capacities among local actors and promote social responsibility. In this regard, the Musical Education Program continued to prove useful as an instrument to facilitate social capital through instrumental, vocal and lutherie activities; the creation of the first young people's orchestra of Peru is one of the results of the program as well as a new partnership forged with Fe y Alegría to include more children. Likewise, the Sports Education Program was implemented through two projects integrating physical training sessions with nutrition, basic skills and psychological support - in Chíncha in alliance with the private sector and afro-Peruvian children and youngsters; and in several Departments in Peru in alliance Special Olympics International. With regard to productive community management, progress was made in the province of Huara through the promotion of local cooperation and self management. Additionally, significant progress was made in the design of initiatives to improve managerial skills in the quechua speaking population in the Cusco Department.



The social inclusion project for the handicapped through sports incorporates more than 1,800 children, youngsters and adults.



A Trujillo shoe network enterprise whose members have united to establish a national trade enterprise.

Los Andes Cantan™

CAF

Comprometida con la Cultura
como parte del Desarrollo Sostenible
y la Integración Regional





Venezuela

DURING THE PRECEDING FIVE YEARS (2000-2004), CAF approved an amount of \$ 3,128 million in operations for Venezuela –representing a yearly average of more than \$ 626 million– while, disbursements amounted to \$ 1,785 million, representing 17% of the Corporation's total.

During 2004 approvals increased to \$ 821 million, representing 23% of the institution's total. Disbursements were \$ 309 million and the total portfolio* reached \$ 1,219 million, distributed as follows: 96% in infrastructure, 3% in financing lines of credit and working capital and the remaining 1% in manufacturing and other sectors of economic activity. Within infrastructure projects, 48% went to transportation and telecommunications, 15% to energy, while 33% was aimed at social infrastructure: water and sanitation, education, community, social and health services.

Approvals totaling \$ 805 million went mainly to sovereign risk operations, of which \$ 780 million went to the strategic area serving *basic needs, the environment and infrastructure*.

In this area \$ 350 million were approved for important urban infrastructure improvement and expansion projects for mass transportation, while \$ 325 million were earmarked for the energy sector, and \$ 105 million went to social development infrastructure. Worth mentioning is the support given in the area of urban mass transportation to Compañía Anónima Metro Los Teques in the development of a mass transportation system between Los Teques and Caracas; likewise, support was given to the urban development plan of the city of Maracaibo, Zulia State, through the approvals of resources for a rapid mass transportation project that will serve as a catalytic agent for the organization of the city. CAF also continued to support the National Railroad Plan comprised of an interconnected system that will cover most of the regions with the highest population densities and will connect the city of Caracas to the Valles del Tuy, contributing to increase the capacity of the inter-regional transportation system, facilitate the export of non-traditional products, decrease dependence on automobile transportation and strengthen the interchange of trade with the Andean Community and Mercosur through bi-national connections with Colombia and Brazil.

In the energy sector, partial financing was approved for the TOCOMA Hydro Electrical Plant project was approved, for \$ 300 million. Its objective is to increase the generation, of electrical energy in the country, providing an average 12,100 GWh of energy per year, as well as improving the efficiency and reliability of the national electrical system. The execution of this project is part of a strategic plan to develop the Caroní River, located in southern Venezuela, which already counts with three hydro electrical plants that provide 75% of the total energy used in the country. A loan was also approved for Compañía Anónima de Administración y Fomento Eléctrico (CADAFE), aimed at improving its commercial activities in areas such as readings, invoicing and collections. Operations to support institutional strengthening of this company are also included.

As for social infrastructure, \$ 105 million were earmarked for important projects to increase coverage, improve quality and reach sustainability in supplying potable water and sanitation services to the Municipalities of Zulia State, mainly benefiting indigenous populations. Likewise, resources were used to strengthen and consolidate a productive, participative, industrial and sustainable agricultural cattle raising system in the Quibor Valley, thereby contributing to the domestic supply of foods stuffs. Support was also given to the construction of potable water and sanitation systems for the Guajira Peninsula and Yacambú-Quibor.

In the area of competitiveness, productive sectors and SMEs, support was allocated through a long-term loan to the Industrial Credit Fund (FONCREI), for \$ 25 million. Loans were also approved in

Through its Musical Education Program, developed at the local, national and regional scale, CAF contributes to strengthen the individual and collective conducts of children and youngsters from the poorest sectors, hoping to build better societies.

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Operations approved for Venezuela. Year 2004

In US\$ Millions

Client and Executing Agency	Operation	Purpose	Amount	Term (Years)	Project Cost
Bolivarian Republic of Venezuela / EDELCA	Partial investment financing in the Tocoma Central Hydro electrical Project.	Increase the supply of energy and improve efficiency of the national electrical system	300	15	3,050
Bolivarian Republic of Venezuela / Autonomous Institute of the State-owned Railroad – IAFE	Caracas-Tuy Medio Railroad	Increase the capacity of the inter-regional transportation system and strengthen trade interchange with the country's South.	200	10	1,987
Bolivarian Republic of Venezuela / Sistema Hidráulico Yacambú Quibor C.A.	Hydric Resources Integrated Management Program of the Yacambú – Quibor Program	Consolidate a productive agricultural and cattle raising productive system in the Quibor valley	90	12	194
Bolivarian Republic of Venezuela / C.A. Metro de Maracaibo	Maracaibo Subway II	Provide the city of Maracaibo with an efficient, reliable and economical transportation system.	80	10	361
Bolivarian Republic of Venezuela / C.A. Metro Los Teques	Los Teques Subway III	Provide rapid and safe mass transportation to the population of los altos mirandinos.	70	10	473
Bolivarian Republic of Venezuela / Compañía Anónima de Administración y Fomento Eléctrico (CADAPE)	Trade Modernization Program of CADAPE	Improve CADAPE's trade management and support its institutional strength.	25	5	47
Bolivarian Republic of Venezuela / Fondo de Crédito Industrial (FONCREI)	Support Program for SMEs	Contribute to the development of the SMEs.	25	10	n.a.
Bolivarian Republic of Venezuela / HIDROVEN	Investment Program for Potable Water and Sanitation in the Guajira Peninsula	Increase coverage, improve quality and reach sustainability in the rendering of services of potable water and sanitation in Zulia State.	15	10	23
Various clients	Financing for Trade, Working Capital and SMEs	Finance foreign trade and working capital operations.	15	Various	n.a.
Various clients	Other operations	Technical Cooperation and Fondeshu	1		
Total			821		

the amount of \$ 15 million for operations made through the financial sector. Likewise, support was given to diverse initiatives to facilitate access by SMEs to capital and promote their internationalization. Through the Exporter Development Program (PADE), and in alliance with Conindustria, 30 SMEs with export potential were selected and counselled in this area. Likewise, the Business Investment and Development Fund for Small- and Medium-size Enterprises (FIDE), through its participation in Negocios Digitales, an investment company, is providing support to strengthen a company that designs electrical loss detection devices. This operation is a joint collaboration with a private risk capital fund.

Other contributions to Venezuela's sustainable development

Technical cooperation operations approved for Venezuela during the year totaled \$ 1 million to support diverse activities in the strategic area related to governance and social capital.

In this context, the II Promotion of the Governance and Political Management Program, executed in alliance with the George Washington University and Universidad Católica Andrés Bello concluded successfully and graduate 108 participants to contribute to form a critical mass of leaders and their staff in public management and political dynamics. Likewise, the Transparent and Efficient Municipalities program finalized plans with the Baruta Municipality in Southeastern Caracas, modernize the land registration systems. The Leadership for Transformation program, jointly with FUDESEM, trained 450 leaders providing them with tools to exercise their citizenship with responsibility, ethics and democratic values.

The Andean Competitiveness Program (PAC) continued promoting the Network, Venezuela Competes, which to date counts with the participation of more than 30 national public and private institutions, and the leadership of the National Investment Promotion Council. The PAC has developed a culture of quality in the Venezuelan software industry, by strengthening the Center for Software Engineering Excellence in the city of Merida. Finally, the PAC developed an Entrepreneurial Service Model with the participation of the Business Education Institute, Metropolitana, Yacambú, Andes and Oriente universities, the Association of Young Entrepreneurs and the Technological Parks of Merida and Sartenejas.

In the area of cultural and community development CAF supported a number of projects to strengthen basic capacities among local actors and promote social responsibility. In this regard, the Musical Education Program continued to prove useful as an instrument to facilitate social capital through instrumental, vocal and lutherie activities. Likewise, the Sports Education Program was implemented through training sessions integrating basic skills in alliance with Fundación Santa Teresa. With regard to productive community management, progress was made in craftsmanship skills in partnership with the Spanish Agency for International Cooperation, the local authorities of the State Vargas, and in an alliance with Bancoex. Additionally, progress has continued - in alliance with the Paria Project Foundation- to enhance the organizational and financial capacities of cocoa-growing communities, improve their living conditions through the strengthening of productive and marketing processes and improve access to basic public services. Financial access is being strengthened through another project in alliance with FUNDEFIR aimed at promoting an investment, saving and payment culture in communities with no access to formal financial mechanisms.

The Río Yacambú Basin Conservation program promotes economic sustainable activities in communities established in the area.



The Caracas-Tuy Medio Railroad Project will improve cargo distribution and passenger transportation



Villagers are educated through a project that supports peanut growing communities in Paria, Sucre State.



NO SMOKING

H 3

H 3

H 3

H 3



Other shareholder countries and multinational operations

DURING THE PRECEDING FIVE YEARS (2000-2004), CAF has approved a total of \$ 1,407 million in operations for Series C shareholders –that is, non-andean community countries while– disbursements were \$ 739 million. At end 2004, the total loan and equity investment portfolio of these countries was \$ 616 million, representing 8% of CAF's total portfolio.

The President of the Dominican Republic, Leonel Fernández, and CAF's president, Enrique García, after subscribing the agreement making this country a shareholder of the Corporation.



Such activity helped the institution strengthen its role as an articulator of Latin American integration, and to expand its base of operations in light of its growing profitability and efficiency. This also explains the incorporation of new shareholder countries and the prioritization of high impact economic and integration programs.

In this context, most noteworthy was the signing of the Capital Subscription Agreement and Immunities and Privileges Agreement to formalize the incorporation of the Dominican Republic as a shareholder. This brought the number of non-Andean member shareholders to 12, and the total number of member countries to 17. Likewise, the Republic of Uruguay subscribed a capital increase of \$ 20 million through its Central Bank, which expands the potential for CAF's operations in this country. The next step will be to meet with the Uruguayan authorities to set up a program of action to develop during the next four years.

CAF also continued its support to the Plan Puebla Panama and its linkage with the Initiative for Regional Infrastructure Integration in South America (IIRSA), to further deepend the potential for integration objectives in Latin American.

During 2004, CAF's institutional and financial presence was strengthened in the Series C shareholder countries, having undertaken various program missions to identify priorities and establish their governments. Approvals totaled \$ 319 million and disbursements \$ 52 million.



The rehabilitation of the La Picasa railroad will facilitate the communication of an important productive region of Argentina with the rest of the country.

Worthy of note was the approval of new operations in Costa Rica, Paraguay and Argentina, the last of which received a \$ 35 million approval to finance the construction of the La Picasa Railroad Viaduct and strengthen the Railroad Sector the main objective of this loan is to support the rehabilitation of an important span of the Buenos Aires/Mendoza railroad line –that forms part of the IIRSA Mercosur/Chile integration Hub– and to strengthen operational management and controls in the Office of the Secretary of Transportation. A line of credit for \$ 25 million to Banco de Inversión y Comercio Exterior (BICE), aimed at supporting trade with Andean Community Countries, was also approved.

Total approvals Series C countries	In US\$ Millions					
	2000	2001	2002	2003	2004	2000-04
Argentina				175	60	235
Brazil	72	112	260	245	170	859
Costa Rica	0	0	0	30	63	93
Mexico	0	33	2	2	2	38
Panama	0	0	0	0	1	1
Paraguay	3	2	0	0	11	15
Uruguay			100	0	0	100
Otros	12	22	9	9	13	65
Total	87	169	371	461	319	1,407

* Includes the cofinanced component of CAF's portfolio and credits obtained through CAF's partial credit guarantee program.

Operations approved. Year 2004

In US\$ Millions

Client and Executing Agency	Operation	Purpose	Amount	Term (Years)	Project Cost
Argentina Republic of Argentina / Office of the Secretary of Transportation	La Picasa Railroad Viaduct	Reestablish services in the Buenos Aires-Mendoza railroad line and institutionally strengthen the Office of the Secretary of Transportation.	35	12	51
Various clients	Foreign Trade and Working Capital Operations	Finance foreign trade and working capital operations.	25	Various	
Paraguay Republic of Paraguay / Ministry of Public Works and Communications (MOPC)	Rehabilitation of Integration Corridors RN 10 and RN 11	Improvement and rehabilitation of the Main Roads Network of Paraguay.	10	10	28
Other countries Various clients	Other Operations	Finance foreign trade, working capital and capital goods investment operation	235	Various	
Various clients	Other Operations	Technical Cooperation	14	Various	
Total			319		

Within the framework of the Integration Corridors Program, in the Eastern region of Paraguay, important improvement works on the Transchaco highway are being executed.

\$ 40 million were earmarked to Costa Rica for the Competitiveness and International Insertion Support Program, whose purpose is to assist the private sector of Costa Rica in updating its productive capacity to assume the challenges and take advantage of the opportunities of the Free Trade Agreement subscribed with the United States. This program has a non-reimbursable technical cooperation component to support business competitiveness. Financing for this program will be instrumented through banks of Costa Rica and the International Bank for Economic Integration (CABEI) will also participate in this program, reflecting the strength of CAF's working relationship with this important development bank.



Costa Rica and the International Bank for Economic Integration (CABEI) will also participate in this program, reflecting the strength of CAF's working relationship with this important development bank.

A \$ 10 million loan was approved for Paraguay, to improve and rehabilitate the country's Main Roads Network, within the Integration Corridors of Eastern Paraguay. The project has a total cost of \$ 28 million, and will also count with the participation of the OPEC Fund with of \$ 12 million loan. It has been named Rehabilitation and Paving of the Integration Corridors, National Route 11 and the branch to National Route 10, and will be included within the Initiative for Regional Infrastructure Integration in South America (IIRSA). Among the objectives of the project is the modernization of National Route 11 to complete a 230 km section of the integration corridor between Capitan Badó, in the Brazilian border and Puerto Antequera, on the Paraguay River.

CAF also continued disbursing the loan for the Paraguay-Bolivia Transchaco road, with total disbursements of \$ 14.6 million, including \$ 1 million in foreign trade and working capital operations to local banks.

CAF approved \$ 170 million to Brazil through lines of credit aimed at financing working capital and foreign trade operations. It is worth mentioning that of CAF's non-Andean shareholders, Brazil has had the greatest growth in its total portfolio (\$ 417 million), representing 80% of CAF's total portfolio in these countries. The remainder belongs to Paraguay (\$ 53.1 million), Panama (\$ 33.5 million) and Uruguay (\$ 20.1 million). Brazil's portfolio growth is basically explained by the financing granted to this country for the execution of important integration projects mostly with Bolivia, Peru and Venezuela.



CAF strengthens relations with its member countries:

Above, during a meeting with President Vicente Fox, Enrique García, CAF's president, interchanges information regarding projects and activities of interest to Mexico. Below, with HRM the Prince of Asturias, during the business seminar organized by CAF in Madrid.

This year CAF continued providing support to Uruguay through the disbursement of \$ 5.5 million for the highway megaconcession project, which the government is already executing with partial funding from CAF. Discussions were held with Mexican authorities regarding possible modalities for CAF's operations focused on infrastructure projects to be built in Mexico's Southeastern States, as part of the Plan Puebla-Panama.

With respect to Spain –a CAF shareholder since 2002– and important seminar was held in Madrid, “Corporación Andina de Fomento's role in Latin America. Collaboration Opportunities for Spanish Enterprises”, organized jointly with Spain's Ministry of the Economy and the Institute of Foreign Commerce, and inaugurated by His Majesty, Prince of Asturias, Don Felipe de Borbón. Diverse visits were also made to Spanish companies, both in Spain and in other countries, to have a closer look at their projects in the region and to explore opportunities for financial support.

CAF has also been involved in operations with diverse Spanish financial entities, such as the Instituto de Crédito Oficial, Caja Madrid, Banesto, Banco Santander Central Hispano and Banco Bilbao Vizcaya Argentaria, through lines of credit to finance Spanish trade and investments in the region, and A/B type co-financing operations that CAF executes as part of its catalytic role to attract resources to Latin America. Also, through the Spanish Technical Cooperation Fund, managed by the Corporation, non-reimbursable financing is granted to tourism, pre-investment and technical cooperation projects.

CAF continued to support Panama through a loan for the inter oceanic road infrastructure of which \$ 4.3 million were disbursed during the year.

Other contributions to sustainable development

In the area of technical cooperation, CAF approved an aggregate amount of \$ 358,000 in operations for Argentina, Brazil and Costa Rica.

With these resources, in Argentina CAF is financing the Development Plan for the Creation of Sustainable Tourism for the Province of Jujuy, to help make tourism in this Northern Province a strategic economic sector, generating income and employment, while contributing to improve the quality of life of its population. Resources were also approved for the development of the Rural Tourism Network project that is being carried out in five regions of Argentina, Bolivia and Venezuela and which, in the case of Argentina, is being executed in the provinces of Jujuy and Salta, to strengthen the skills of communities located in high value environmental and scenic zones, so that resident farmers and indigenous peoples can count on a sustainable alternative economy. The tourism potential of this region is of renowned importance, especially in the region of the Humahuaca Gorge, declared Patrimony of Humanity in the category of cultural scenery.

In the case of Brazil, an operation was approved to support the institutional strengthening of some ministries in the area of public-private associations, as the financing modality for some duly prioritized projects.

Finally, support was given in Costa Rica to the Ministry of Foreign Affairs, to hold the XIV Latin American Summit of Heads of State and Government, and to the National Biodiversity Institute (INBio) in the initial phase of the Biotrade Program that will be promoted in the country.

CAF has also supported regional initiatives such as Cleantech, a fund for investment in small- and medium-size enterprises that use clean and alternative energy. Finally, it is developing a co-financing program for medium-size enterprises that benefit from opportunities brought about by the FTA.

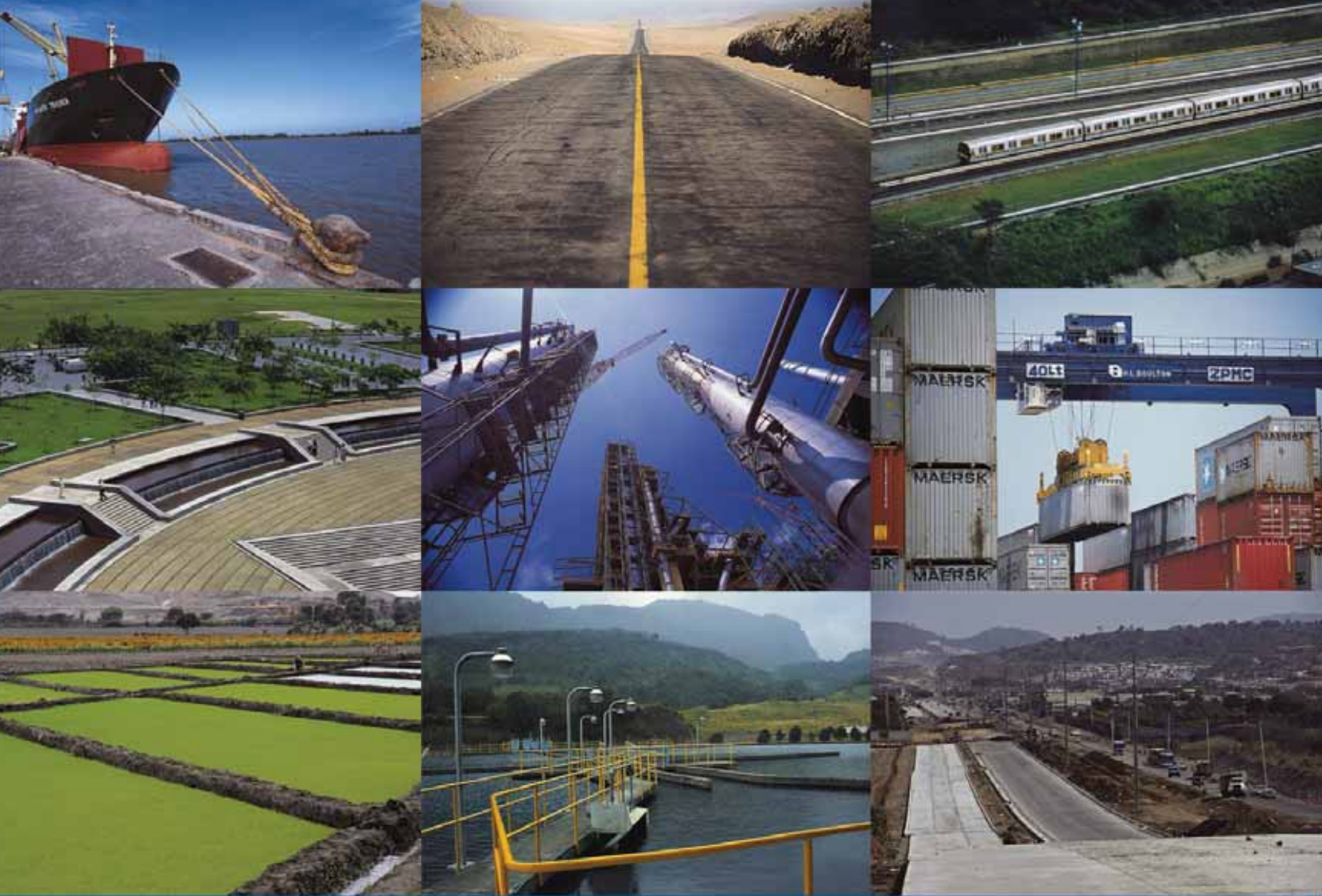
The Humahuaca gorge, in Jujuy, Argentina, is one of the attractions that forms part of the Rural Tourism Network in the Andean Countries.



Table of approved operations in 2004

In US\$ millions

	Short term	Medium term	Long term	Total CAF
1. Bolivia	116.6	0.0	382.2	498.8
Project, Program and Corporate Loan Execution	59.0		376.0	435.0
International Trade Operations	57.6			57.6
Technical Cooperation and Fondeshu operations			6.2	6.2
Equity Participations				0.0
2. Colombia	175.0	10.0	737.1	922.1
Project, Program and Corporate Loan Execution			732.0	732.0
International Trade Operations	175.0	10.0		185.0
Technical Cooperation and Fondeshu operations			5.1	5.1
Equity Participations				0.0
3. Ecuador	106.5	18.3	213.2	338.0
Project, Program and Corporate Loan Execution		18.3	209.0	227.3
International Trade Operations	106.5			106.5
Technical Cooperation and Fondeshu operations			4.2	4.2
Equity Participations				0.0
4. Peru	85.0	9.0	509.9	603.9
Project, Program and Corporate Loan Execution			507.0	507.0
International Trade Operations	85.0	9.0		94.0
Technical Cooperation and Fondeshu operations			2.9	2.9
Equity Participations				0.0
5. Venezuela	15.0	25.0	781.2	821.2
Project, Program and Corporate Loan Execution		25.0	780.0	805.0
International Trade Operations	15.0			15.0
Technical Cooperation and Fondeshu operations			1.2	1.2
Equity Participations				0.0
6. Other Shareholder countries	260.0	0.0	57.2	317.2
• Argentina	25.0	0.0	35.0	60.0
Project, Program and Corporate Loan Execution			35.0	35.0
International Trade Operations	25.0			25.0
• Brazil	170.0	0.0	0.0	170.0
International Trade Operations	170.0			170.0
• Costa Rica	62.5	0.0	0.0	62.5
International Trade Operations	62.5			62.5
• Mexico	1.5	0.0	0.0	1.5
International Trade Operations	1.5			1.5
• Paraguay	1.0	0.0	10.0	11.0
Project, Program and Corporate Loan Execution			10.0	10.0
International Trade Operations	1.0			1.0
• Other Operations with Cooperation Resources			12.2	12.2
7. Multinationals	0.0	0.0	1.5	1.5
Equity Participations			1.5	1.5
Total CAF	758.1	62.3	2,682.2	3,502.6
Project, Program and Corporate Loan Execution	59.0	43.3	2,649.0	2,751.3
International Trade Operations	699.1	19.0	0.0	718.1
Technical Cooperation and Fondeshu operations	0.0	0.0	31.7	31.7
Equity Participations	0.0	0.0	1.5	1.5
Gran Total CAF (in proportion by term)	22%	2%	76%	100%



attracting external resources to finance sustainable development

CAF

US \$ 200 million
FRN
January 2004

CAF

US \$ 150 million
EXTENDIBLE NOTES
February 2004

CAF

EUR € 150 million
FRN
May 2004

CAF

COP 272,200 million
COLOMBIAN MARKET
June 2004

CAF

www.caf.com

Management's discussion of financial condition

DURING 2004, CAF WAS REAFFIRMED AS THE MOST important multilateral financing source for the Andean region evidenced by record level of approvals and disbursements achieved in 2004: US\$ 3,503 and US\$ 2,029 respectively. Very importantly, 78% of approvals and 89% of disbursements were directed to the financing of medium- and long-term projects.

CAF received a record US\$ 226 million in new capital contributions from its shareholders. From this total, it is worth noting that US\$ 156 million were contributions from the Andean countries which were made under two simultaneous capital increase programs subscribed by these countries, as well as the completion of committed payments by the Kingdom of Spain. In addition, during 2004 the Oriental Republic of Uruguay increased its paid-in capital by subscribing an additional US\$ 20 million thereof and the Dominican Republic became a new member through the subscription of US\$ 50 million of paid-in capital.

Net profits were also a record in 2004, reaching US\$ 208 million, a 53% increase compared to 2003, mainly attributable to the increase in CAF's lending activity as well as the reduction in borrowing margins. The improvement in the economic conditions in the region reflected through the upgrading of some of the countries' credit ratings, as well as the maintenance of a high credit quality loan portfolio, also contributed to the growth of net profits through a lower requirement for loan loss provisions.

Bond issues in the international markets reached US\$ 657 million for the year, including a bond in the Colombian local market for COP 272.200 million, which is the first issue of CAF in local currency in one of its member countries (*Table 1*).

Table N° 1

2004 Issues in the International Markets			
Date	Market	Amount in original currency of issuance (en millones)	Equivalent in US\$ million
Bond Issuance			
January	Dollars	US\$ 200	200
February	Dollars	US\$ 150	150
April	Euro	€ 150	179
June	Colombian Peso	COP 272,200	100
June	EMTN	US\$ 29	29
	Sub-total 2004		658
Short-Term Issuance Programs			
	Commercial Paper (US)	US\$ 1,000	1,000
	Commercial Paper (Europe)	US\$ 500	500
	Short-term Note (Spain)	€ 500	650
	Sub-total 2004		2,150
	Total 1993-2004		8,049

CAF's presence in the international capital markets has been recognized this year with three awards from the prestigious financial magazines Euromoney (Best Agency Borrower), Emerging Markets (Best Development Bank Deal) and Latin Finance (Best Multilateral Bank).

CAF's ratings were ratified by all the credit rating agencies (*Table 2*), maintaining its condition of frequent issuer with the highest ratings in Latin America.

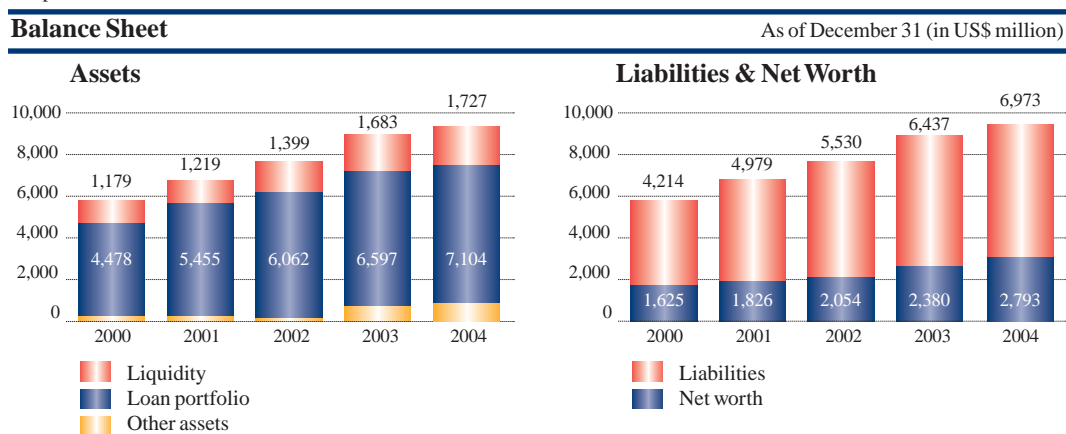
Table N° 2

Ratings	As of December 31, 2004	
	Long-term	Short-term
Standard & Poor's	A	A-1
Moody's	A2	P-1
Fitch	A	F1

Summary of financial statements

At 31 December 2004, total assets were US\$ 9.6 billion, a 9% increase compared to the end of 2003 (*Graph 1*). Asset growth originated mostly from the loan portfolio, which at 31 December of 2004 amounted to US\$ 7.1 billion or 8% over the amount at the end of 2003. The other major component of assets, liquidity, totaled US\$1.7 billion or the equivalent of 18% of total assets and 29% of total borrowings.

Graph N° 1



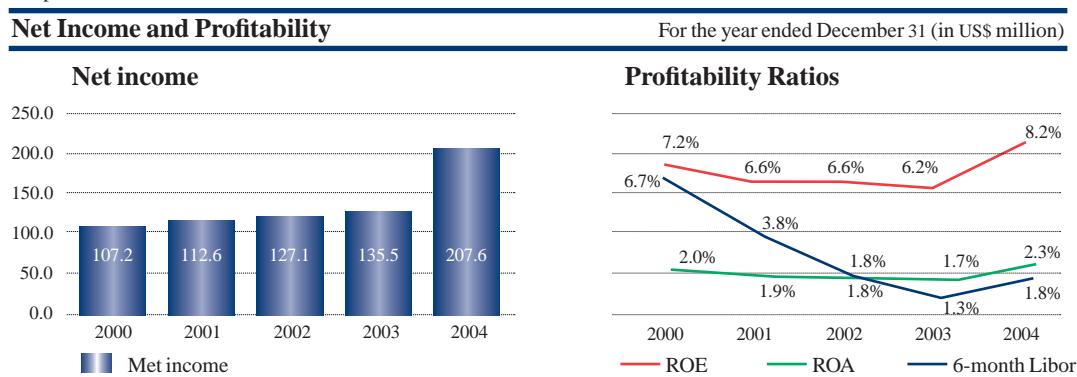
Shareholders' equity was US\$ 2.8 billion at the end of 2004. New capital payments from shareholders totaled US\$ 226 million for the year. In addition retained earnings reached US\$ 208 million. Shareholders' equity represented 29% of total assets and 36.5% of risk-weighted assets, according to the Basle Accord standards, as of 31 December 2004.

As indicated above, net income for the year represented an increase of 53% compared to the previous year, reaching a record level of US\$ 208 million. As a consequence of the trend change in the international interest rates during 2004¹ and to the reduction of borrowing spreads, net interest margin increased to 2.6% in 2004 from 2.4% in 2003. Moreover, the return on equity for the year was 8.2%

1/ Average six-month Libor rate increased to 1.81% for 2004 compared to 1.26% for 2003.

which compares very favorably with the established benchmark of six-month Libor (*Graph N°2*). In addition, the return on assets for the year was 2.3%. Another relevant factor that contributed to the improvement in CAF's profitability was the requirement of lower level of provisions for loan losses motivated by the improvement in the credit quality of the loan portfolio and the current favorable economic situation in Latin America.

Graph N° 2



Loan portfolio

The loan portfolio was US\$7,104 million at the end of 2004 compared to US\$ 6,597 million at the end of 2003, representing an increase of 8%.

The distribution of the loan portfolio continued to be skewed toward the financing of public sector projects, which represented 90% of the total at the end of the year. From the perspective of distribution by country, the largest exposure was Colombia with 24% of the total loan portfolio, followed by Peru with 23%, Ecuador and Venezuela with 17% each, and Bolivia with 13%. Other or non-Andean countries, represented 6% of the total. 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 projects, which represented 75% of the loan portfolio at the end of 2004.

From the point of view of asset quality, the loan portfolio maintained its excellent credit quality (*Table N°3*). Non-performing loans totaled US\$ 20 million or 0.28% of the loan portfolio, while the loan-loss provision totaled US\$ 182 million or 2.6% of the loan portfolio. Loan write-offs were US\$ 13 million for the year.

Table N° 3

Asset Quality	(in US\$ million)				
	2000	2001	2002	2003	2004
Overdues	5.3	0.0	0.0	0.0	0.0
Loans in non-accrual status	36.2	33.8	29.3	10.9	20.0
Allowance for loan losses	153.8	177.0	196.3	209.8	181.8
Overdue as a percentage of loan portfolio	0.12%	0.00%	0.00%	0.00%	0.00%
Non-accrual loans as a percentage of loan portfolio	0.81%	0.62%	0.48%	0.17%	0.28%
Allowance as a percentage of loan portfolio	3.43%	3.24%	3.24%	3.18%	2.56%

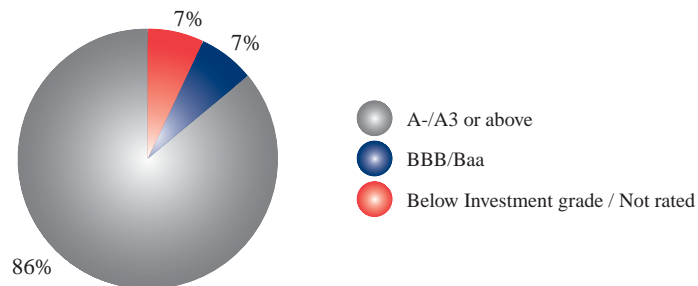
Liquid investments

At 31 December 2004, liquid investments totaled US\$ 1,727 million which represented 18% of assets and 29% of borrowings. The investment portfolio was characterized by short duration, an average of 0.34 years, and excellent credit quality (*Graph 3*): 86% were rated A-/A3 or better, 7% were rated BBB/Baa, and 7% were 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 Assets

As of December 31, 2004



Funding

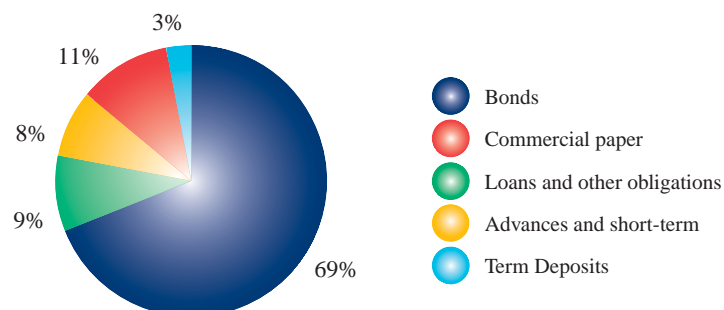
During 2004 bond issuance reached an amount of approximately US\$ 657 million in several transactions. Among these, it is worth mentioning the incursion in new instruments like the "x-notes" which are bonds with renewable maturities and that allowed access to a new group of investors. The landmark transaction of bond issuance activity during 2004 was the Colombian Peso issue, which is CAF's first local currency issue in one of its member countries for an amount COP 272.000 million (equivalent to US\$ 100 million). CAF also maintained an important presence in short-term markets through the continuous use of Commercial Paper Programs in the US and European markets and the Spanish Short-term Note Program.

At 31 December 2004, 91% of CAF's funding came from the international markets. Bonds represented the main source with 69% of total funding (*Graph 4*). In addition, 19% corresponded to commercial paper and short-term loans, 9% to medium- and long-term loans and lines of credit, and 3% 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 multi-lateral financial institutions.

Graph N° 4

Liabilities

As of December 31, 2004



Capital

During 2004, CAF received new capital contributions from its shareholders for a record US\$ 226 million. At 31 December 2004, shareholders' equity totaled US\$ 2,793 million, a 17% increase compared to the end of 2003. The increase came from new capital contributions as well as from retained earnings. As a result of the increase in shareholders' equity, capitalization ratios continue to be well within CAF's policies on this matter (*Table 4*). As of the end of 2004, all shareholders were current in their equity obligations to CAF.

Table N° 4

Capitalization Ratios					
	2000	2001	2002	2003	2004
Gearing (times)	2.8	3.1	3.1	2.9	2.7
Leverage (times)	2.5	2.6	2.4	2.4	2.1
Capital / Risk Weighed Assets (BIS)	33.2%	30.8%	31.3%	34.3%	36.5%

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 31 December 2004, 99.8% of assets and liabilities were denominated in US\$ after swaps, and 98.1% of assets and 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 2004. CAF's policies require that swap counterparties be rated at least A/A2. CAF does not engage in trading of derivatives.

CAF also seeks to maintain a conservative relationship between the average life of assets and the average life of liabilities. At 31 December 2004, the average life of assets was 3.8 years and the average life of liabilities was 3.9 years.



CAF: an agenda for growth, competitiveness and sustainable development



CAF's strategic programs p. 89

Sustainable physical and logistic integration p. 90

Competitiveness, productivity and international insertion p. 94

Sustainable environmental agenda p. 96

Regional promotion and dissemination of knowledge p. 99

Organizational issues p. 105

CAF: an agenda for growth, competitiveness and sustainable development

THE REVISION OF CAF'S SUSTAINABLE development agenda, in support of its shareholder countries, establishes the framework for its activities and for its conceptual and operational development and implementation of flexible and timely solutions to the requirements of its member countries.

In this context, an important part of CAF's efforts has concentrated on promoting solidary and equitable social and human development, and the responsible utilization of the region's natural resources. A similar emphasis has been assigned to strengthening the private sector as a fundamental actor in this process, while continuing to stress upon the Corporation's traditional strengths in the development of Latin American infrastructure. The region's competitiveness, which in its microeconomic and institutional dimension is complementary to the corporate objectives of promoting sustainable development and regional integration, also continued to receive the attention of CAF's activities.

In addition to consolidating its sustainable social agenda and its support to strengthening democratic governance, CAF is also emphasizing the need to take advantage of trade negotiations and regional integration processes of the region's international insertion and its competitive access to foreign markets while advancing towards a deeper productive transformation aimed at generating added value. Likewise, CAF helps preserve the progress achieved in macroeconomic stability by its member countries, by financing structural reform programs and providing advisory services.

During 2004 CAF also continued to use its intellectual influence to contribute to the definition of policies and strategies in critical areas of the countries' development, in a cooperative context and a comprehensive approach to the region, based on its identity. Through other programs, fora and publications, CAF also contributed to disseminate an important knowledge base derived from its own research agenda and from those of other regional and international entities.

CAF's strategic programs

In order to reinforce and strengthen its participation in the different areas of sustainable development and integration, CAF counts on a series of strategic programs that complement its business activities and which provide both financial and non-financial services. These programs –mainly created by CAF– have a regional scope and range from strengthening integration, developing physical infrastructure and increasing competitiveness, to promoting more equitable, human and participative societies in a context of democratic governance.

During 2004, CAF's activities were aimed at the following fields of action:

Sustainable physical and logistic Integration:

- IIRSA – Initiative for Regional Infrastructure Integration in South America
- Plan Puebla-Panama

Competitiveness, productivity and international insertion:

- PAC – Andean Competitiveness Program
- Kemmerer Program for the Development and Integration of Financial Markets
- Research Program in Development Topics

Governance, human development and equity: *

- Governance Program
- SMEs and Microfinance
- Cultural and Community Development Program
- PDHS – Sustainable Human Development Program

Sustainable environmental agenda:

- PLAC – Latin American Carbon Program
- BioCAF – Biodiversity Program
- Sustainable Development Program in Financial Institutions
- PREANDINO – Andean Program for Disaster Risk Prevention and Mitigation

Sustainable physical and logistic integration



Over the preceding five years, CAF has approved loans for infrastructure for over \$ 7,000 million and is the regional financial institution providing the most support to this sector.

The construction of infrastructure in a given territory is the result of human effort to have access and to take advantage of all its potential. Thus, infrastructure which exists in a geographical space is intimately associated with the level of development of the society that occupies it and the lack thereof constitutes a serious restriction on the potential to promote the welfare of that particular society. Accordingly, infrastructure is a necessary, although not sufficient condition, to promote development and, at the same time, it is evidence of the development that has been achieved in a geographical space.

Given its importance, CAF has granted strong support to its shareholder countries in financing infrastructure projects, and it has become the principal regional source of financing to this sector, with total approved loans surpassing \$ 7,000 million over the last five years.

Projects financed by the Corporation have been previously identified and assigned strategic importance by the countries, by virtue of their strong impact on the economy and in improving the quality of life for the population. The main sectors benefiting from these infrastructure projects are transportation, roads and power energy systems, as well as telecommunications and potable water projects.

In addition to the works and equipment necessary for these projects, CAF supports capacity building of the main executing entities and enterprises that deal with these sectors; this involves transferring the knowledge and experience of the best practices for the design and performance of the projects, applying risk prevention policies, evaluating and mitigating environmental impacts, and ensuring efficient implementation.

During 2004, total approvals allocated to support infrastructure were \$ 1,282 million, representing almost 40% of total loans approved by CAF and evidence of its support to governments in promoting their countries' development through the provision of basic infrastructure. Resources approved in 2004 were aimed at financing the construction of roads and bridges, supporting mass transportation, generating electric power and institutional strengthening in Bolivia, Colombia, Ecuador, Peru, Paraguay, Venezuela and Argentina. Among the year's most important projects are the construction of the Tocoma Hydroelectrical Plant, in Venezuela, and the Southern Integration Roads, in Bolivia.

Ratifying the catalytic role that CAF plays to attract resources in addition to its own contributions, other financial sources —such as export credit agencies or other multilateral entities— provided close to \$ 2,300 million, in financing these projects.

An important part of the infrastructure projects approved by CAF is composed of investments that have an important role in promoting the region's physical integration, one of the strategic pillars of its corporate mission. CAF's vocation is reflected in its continuous dialogue with governments and the private sector, where preferential attention is given to integration projects. In the case of Series C

* Programs in this field of action make up CAF's Social Agenda, reviewed in this year's central theme (*see pages 25 to 39*).

shareholder countries, CAF provides innovative financial incentives to integration projects with neighboring countries. As a result, physical integration projects have an important and growing space in CAF's infrastructure portfolio.

The construction of South American integration is a challenge that requires concerted and sustained efforts over time. CAF decidedly accompanies the region's countries in this mission, by providing versatile and timely instruments for project financing and contributing to strengthen and disseminate the experience and management skills which the region generates along the way.

IIRSA initiative during 2004

Having been created in August 2000 through a mandate of the presidents of the 12 South American countries, the Initiative for Regional Infrastructure Integration in South America (IIRSA) has become the main South American forum to promote the region's process of physical articulation. Since its creation, IIRSA has received support at the region's highest political levels and counts on the sustained support of CAF and other multilateral institutions.

In response to the mandate given, IIRSA organized the South American territory into conceptual multinational spaces called Development and Integration Hubs (known by its Spanish acronym EID), the basic planning tools for territorial development. These hubs concentrate the region's trade flows and the objective is for them to converge in a common standard of service quality in transportation, energy, telecommunications and infrastructure.

During 2004 IIRSA made substantial advances in the planning and support effort towards territorial development. The adoption of an "indicative territorial planning methodology" shared by the twelve countries and applied to each one of the EIDs, has helped organize the project portfolio in a manner by which the participating countries can incorporate them at their convenience. At present, the IIRSA portfolio consists of 335 regional infrastructure integration projects divided into groups of 40. Each one responds to the functional needs for territorial integration and specific regional and territorial development and total an estimated investment of \$ 37 billion.

Of this project portfolio, the South American countries have chosen 31, which were grouped in the Consensual Implementation Agenda. These projects will be the object of privileged attention, and follow-up by the corresponding governments and multilateral entities, in order to promote and ensure their adequate and timely execution.

As regards sectorial activities the Initiative created a pilot program to develop five border crossings selected by the participating countries. The program aims to identify and solve problems relating to the lack of adequate infrastructure, equipment, or the absence of adequate procedures that cause unnecessary delays, resulting in cost increases and loss of competitiveness in the transportation of merchandise and passengers through the borders.

As an essential part of its activities to support integration, CAF has also contributed to the efforts of CAN and Mercosur member countries to integrate the region's energy networks. The results include

the subscription of the Andean Community's Decision 536, in which four countries already participate; a fifth one remaining as an observer. Consistent with these integrating efforts in the field of energy, CAF prepared and made available to the countries a first version of an eventual Energy Integration Agreement, presently under analysis and discussion, for which diverse seminars and workshops have been held, highlighting the participation and support provided by CAF to these initiatives.

The first meeting of the Technical Group for Innovative Financing Mechanisms was held in November to analyze in detail the different options available to the countries of the region to finance integration projects within a general framework of fiscal austerity. The

The Venezuela-Brazil Roads Interconnection project, a highway that extends from Boa Vista to Manaus, is one of the 335 infrastructure integration projects in the IIRSA portfolio, many of which count on CAF's financial support.



Physical integration projects financed by CAF

* #		CAF's Contribution (US\$ MM)	Total Investment (US\$ MM)
Andino Hub			
1	Venezuela: Caracas railroad link to the national network	360.0	1,932.0
2	Venezuela: Support to commercial navigation in the Orinoco – Apure fluvial hub	10.0	14.3
3	Colombia: Buenaventura corridor – Bogota (La Línea Tunnel)	32.0	278.6
4	Ecuador: Amazon link to Colombia and Peru (Carretera Troncal del Oriente)	93.8	152.7
Escudo Guayanés Hub			
5	Brazil: Venezuela – Brazil Interconnection road	86.0	168.0
6	Brazil: Venezuela – Brazil electrical interconnection	86.0	210.9
7	Venezuela: Ciudad Guayana – Maturin – Sucre State railroad study	2.6	2.6
8	Venezuela: Ciudad Guayana (Venezuela) – Georgetown (Guyana) highway study	0.8	0.8
Amazonas Hub			
9	Ecuador: (Julio Andrade – Santa Bárbara – La Bonita section) Río Putumayo access	7.4	10.7
10	Ecuador: Central Trans-Andean connection (Tandapi – Aloag section)	26.3	43.8
11	Ecuador: Southern Trans-Andean corridor	70.0	110.2
12	Peru: North Amazon corridor (Olmos – Corral Quemado y Rioja – Tarapotos sections)	50.0	108.0
13	Peru: Central Amazon corridor (Tingo Maria – Aguaytia – Pucallpa section)	3.5	13.6
14	Brazil: Integration road program, Rondonia State	35.0	89.2
15	Peru: Iñapari – Cusco/Puno (South Amazon corridor) highway study	3.5	3.5
Interoceanico Central Hub			
16	Peru: Bolivia – Peru integration road corridor	48.9	176.6
17	Bolivia: Bolivia – Chile integration road corridor	38.0	88.0
18	Bolivia: Santa Cruz - Puerto Suarez integration road corridor	100.0	372.2
19	Bolivia: Bolivia – Argentina integration road corridor	194.0	492.0
20	Bolivia: Bolivia – Paraguay integration road corridor	60.0	182.6
21	Bolivia / Brazil: Bolivia – Brazil gas pipeline	215.0	2,055.0
22	Bolivia: Transredes gas pipeline	88.0	262.8
Mercosur – Chile Hub			
23	Argentina / Brazil: Paso de los Libres – Uruguiana frontier center	10.0	10.0
24	Argentina: Buenos Aires – Santiago Corridor (Laguna La Picara roads bypass)	10.0	10.0
25	Argentina: Buenos Aires – Santiago Corridor (Laguna La Picara railroad bypass)	35.0	50.0
26	Argentina: Buenos Aires – Santiago (paso Pehuenche, RN40 and RN 145 access)	26.7	38.1
27	Uruguay: Megaconcession of the principal roads connecting Argentina and Brazil	25.0	136.5
Capricornio Hub			
28	Argentina: Paving of RN 81	16.6	16.6
29	Argentina: Access to Paso de Jama (Argentina – Chile)	54.0	54.0
30	Argentina: Study for the Jujuy – La Quiaca railroad	1.0	1.0
31	Paraguay: Rehabilitation and paving of integration corridors: RN 11 and branch RN10	10.0	28.1
Paraguay – Paraná Waterway Hub			
32	Navigation, institutional and financial operations improvement study of the waterway (Argentina, Bolivia, Brazil, Paraguay and Uruguay)	0.9	1.1
	Total	1,800.0	7,113.5

* The number of each project indicates its location in the map found on the following page.



Legend

- Existing system of public roads
- CAF public roads system project
- CAF electrical interconnection project
- CAF gas pipeline project
- CAF railroad project
- Waterways
- Hydroelectrical plant
- CAF border crossing project
- Nation's capital
- Other cities
- Ports

participating countries resolved to reject the eventual creation of a supranational infrastructure authority since they felt that it would not provide an adequate response to the needs of the countries. They then decided to continue exploring diverse innovative financial mechanisms on the basis of their practical applicability, and to closely follow-up on negotiations with the IMF.

The dissemination of the Strategic Vision for the Development of Regional Infrastructure in South America received a strong impulse to promote its analysis and discussion by the governments and to incorporate a more active role by the private sector and civil society in the Initiative. Dissemination materials are now available which, along with the philosophy and scope of the Initiative, help the new agents to participate and contribute with their perspectives and points of view. The incorporation of IIRSA as a subsite in CAF's Website (www.caf.com/iirsa) forms part of this dissemination effort.

The countries now have at their disposal the final report from a panel of experts on the complementary institutional, legal, engineering, environmental and economic requirements for the development of the Hidrovía Paraguay-Paraná works. This study, financed with technical cooperation funds provided by CAF, is the starting point for the development of this body of water, allowing for a greater economic and commercial integration of its area of influence.

The Program for the Improvement of the Quality of Port Services that CAF has undertaken with the support of Universidad Politécnica of Valencia, Spain, has made important progress. Promotional Groups as well as the Quality Councils of practically all the ports that participate in the Program –Puerto Cabello, Cartagena, Buenaventura, Guayaquil and El Callao– have been constituted and are working to provide impetus to process re-engineering to optimize the logistics and quality of port services.

All these advances registered by IIRSA and the integration of South American countries during 2004 were recognized by the heads of state during the III Meeting of South American Presidents, in Cusco, Peru, in December. On this occasion, the heads of state reaffirmed their full support to the initiative and to the progress achieved, specially highlighting the Consensual Implementation Agenda and the IIRSA project portfolio.

Competitiveness, productivity and international insertion

As part of the activities to promote a comprehensive development agenda, CAF has programs that promote competitiveness in the countries of the region. They seek to generate and disseminate knowledge regarding the fundamentals of competitiveness, and to have it adequately understood and adopted by the principal economic agents, in order to contribute to permanent changes in the construction of competitive businesses and organizations. These programs stimulate the design and adoption of good business practices and strategies, as well as public policies aimed at strengthening the region's competitive participation in the world's economy.

Andean Competitiveness Program

The Andean Competitiveness Program (PAC) concluded its second phase in 2004. During this phase, (2002-2004), PAC had the general objective to support the region in consolidating a competitiveness agenda to improve its economic growth and the living conditions of the majority of their population. The budget earmarked for these two years amounted to \$ 4 million.

During this second phase, PAC developed five studies and thirty-eight projects in the following areas: competitiveness strategies, cluster promotion and development, business climate improvement; entrepreneurial skills promotion; information and communications technologies; institutional strengthening and knowledge assets. In many cases, PAC has been a pioneer in the



Through its integral development agenda, CAF promotes upgrading productive skills and competitive international penetration of its member countries' enterprises.

development of skills, competence and new institutional structures in critical topics related to these areas, and the valuable knowledge and experience accumulated to date, has ratified CAF's role as one of the leading organizations in promoting competitiveness within the region.

The financing of these technical assistance projects –executed in Bolivia, Colombia, Ecuador, Peru and Venezuela– surpassed \$ 1.6 million while additional resources attracted by counterparts, associates and other organizations totaled \$ 3.2 million. Furthermore, these projects have motivated other bilateral and multilateral organizations to join in to support of activities to promote competitiveness.

As a result of this effort, CAF now counts with a solid network of allies committed to the construction of competitiveness in the countries of the region, in the public, private and academic sectors, whose actions aim at multiply the synergies derived from a joint learning processes, as well as to enrich the interchange of experiences.

PAC has also provided support in the identification, design and follow-up of technical cooperation projects in areas of competitiveness that are financed with reimbursable resources, within the loan framework granted by the Corporation to the Governments of Bolivia, Ecuador, Peru and Costa Rica.

In addition, the PAC team –together with other areas of CAF– has participated in activities to support the negotiating positions of Bolivia, Colombia, Ecuador and Peru in the process of negotiation of the Free Trade Agreement with the United States and the productive, trade, and associative improvement of these countries' businesses.

PAC has executed an intense dissemination plan that includes publications and videos, a periodical electronic bulletin, a subsite (www.caf.com/pac), conferences, workshops, and the CAF Encounter for Competitiveness, which took place in Caracas, Venezuela (OCT/19/04). The latter was an unprecedented effort by the Corporation to disseminate the fundamentals of competitiveness through the presentation of PAC's project results; it also involved major discussions on clusters, entrepreneurial skills, prospective knowledge assets and social capital, by renowned professionals. This event counted with the participation of more than 400 persons from the Andean countries, and was followed by workshops conducted by experienced lecturers. One of its main results, in addition to the fruitful interchange of ideas by important PAC allies, was the consolidation of many networks of cluster promoters and entrepreneurial skills in the region.

The Corporation's Board of Directors, in its meeting held on November 30, 2004, approved PAC'S third phase to be developed during 2005 and 2006. The budget approved for both years is \$ 3 million and will be charged to CAF's Technical Assistance Fund. The goal is to consolidate the achievements and continue supporting the countries with a greater emphasis on the efficiency and impact of its future activities. Likewise, PAC will expand its geographical area of action to other CAF shareholder countries outside of the Andean region, and it will now be called the Competitiveness Support Program, while keeping the Spanish acronym PAC.

Phase III activities will concentrate on the following areas: development of clusters and productive and trade skills, promotion of entrepreneurial skills, know-how; institutional strengthening, support in the design and follow-up of projects within the framework of CAF's credit activities and support to the Capital Markets Development Program.

In this phase, PAC will continue to support the countries' effort in the building of productive and trade skills so that they may take advantage of the opportunities derived from trade and integration agreements. Furthermore, it will act closely in coordination with other areas, such as the SMEs and Microfinance and Corporate Banking Directions and other strategic programs such as IIRSA, seeking to generate strong synergies and to act as a catalytic agent to attract new business for the Corporation.

Financial and capital markets

Despite the positive behavior of the region's stock exchanges during 2004 –the stock exchanges of Colombia and Lima experienced an increase of over 50%– the region's capital markets continue to be small. Problems surrounding capital markets, the reduced size of the enterprises and low standards of corporate governance explain this situation.

In this context, within the framework of the Kemmerer Program for the Development and Integration of Financial Markets, CAF concentrated its activity on two main topics: promotion of good corporate governance and support for the integration of capital markets. For this reason the Guidelines for an Andean Code of Corporate Governance, was prepared and targeted the region's entrepreneurial community. It includes 51 measures and nearly one hundred recommendations to improve corporate governance practices among the region's entrepreneurs. Parallel to the launching of this document, its recommendations were implemented in three enterprises of the region and workshops were held in the five Andean countries to make its contents known. Furthermore, in support to the Andean corporate governance network CAF, sponsored and promoted events where cases of good practices were presented and counted on the testimony of participating companies.

As for capital markets' integration, support was given to the initiative of the countries' regulating agencies in the design of a Special Regime for Andean Securities Issues, a norm that would facilitate the registration requirements for businesses wishing to issue securities in the countries of the region. The proposal is presently being studied by regulators.

Finally, a subsite of the program was included in the Corporation's Website (www.caf.com/kemmerer), where anyone interested may consult the documents and results of the consulting operations financed by the program and obtain up-to-date information regarding events and other activities.

Research Program in development topics

2004 saw the conclusion of the third stage of this program, whose objective is to establish a relationship and provide support to local researchers on development topics, of interest to CAF's development agenda. The program's initial calls for papers received an annual average of 70 proposals from 14 countries. On the basis of these reports, this year saw the launching of the first issue of the Report on Economics and Development (*see Box p. 23*), a yearly publication that will expound on issues of relevance for the regional public policy agenda, in a systematic and comprehensive manner.

The third invitation, made in 2004, resulted in the selection of five research proposals centered mainly on trade issues: trade patterns, the impact of foreign direct investment as well as sectoral impacts, among others. During the year, through round tables and international seminars, the findings of these studies have been shared with policymakers in the region with a view to assisting their decision making processes, and to promote dialogues between academic and governmental institutions. Two issues of the bi-annual journal "Perspectivas", were published and included this reports. Finally, a fourth call for papers was issued and the main topic will be "Promoting diversification and productivity".

Sustainable environmental agenda

The System of Environmental and Social Evaluation and Follow-Up of Operations, which is based on the Corporation's guidelines, guarantees the inclusion of environmental and social criteria in all phases of the CAF's lending process, in order to ensure the sustainability of its operations for this purpose, it has also developed the *Guide for Environmental and Social Management of Operations* and the *Manual for Investment Requirements for the Environmental and Social Management of Primary and Secondary Roads*, both of which help the loan officers to adequately evaluate operations.

CAF has also strengthened its capability for environmental and social management by hiring specialized professionals and developing automated tools that help guarantee quality and speed, minimized risks and impacts and identify environmental and social opportunities in operations. Thus, CAF launched the first version of the Information Systems for Environmental Management (SIGAS), a computerized system that facilitates management and follow-up of the documentation generated during the evaluation stage. The Evaluation Tool for Environmental, Labor and Social Performance (EGALS) was also developed, and will be used to evaluate CAF's corporate clients.



CAF promotes the responsible use of the regions' natural capital, including environmental and social sustainability criteria, inside the Corporation and in its shareholder countries.

Likewise, in order to contribute to the preliminary evaluation of possible environmental and social impacts in large infrastructure projects in the Andean region, CAF continues to rely on the geographical information system CONDOR, which was incorporated into its Website (www.caf.com/condor), resulting in a considerable increase in the use of this versatile planning tool. In this context 160 key professionals from the public and private sectors, involved in the planning and development of these types of projects were trained in the use of this system. CAF is also evaluating the possibility for organizations such as the hydrocarbon, mining and energy ministries, among others, to enter their projects into the CONDOR system and build up their own virtual project library, supported by a wide range of environmental and social information for improved planning and management.

Latin-American Carbon Program (PLAC)

PLAC was established in 1999 to contribute to the development of the carbon market, to develop the necessary financial instruments and to promote the participation of the business and productive sectors.

Some of the major achievements of this program include the support provided by the climate change offices in the CAF's shareholder countries, the identification and development of more than ten successful projects in PLAC's portfolio, supplying more than 8 million tons of carbon emission reduction and representing an estimated income of approximately \$ 35 million.

As for institutional strengthening, together with the CONAM and the FONAM, in Lima, Peru, PLAC organized the second annual climate change event for Latin America and the Caribbean. This is the main regional event on these issues and provides participants with up-to-date information on lessons learned by Latin American in this field.

Two workshops were held for Latin American climate change negotiators –in Caracas and Quito– that resulted in specific proposals which are presented unanimously by the countries to the MDL methodology panel at the Tenth Session of the Conference of the Parties held in Argentina at end 2004. Likewise, specialized technical workshops were held and direct support to the climate change offices of the member countries continued through the bilateral technical cooperation programs.

In 2004 PLAC also began negotiations with donor countries to establish technical training funds to contribute to the institutional strengthening Latin America and the Caribbean such efforts will continue in the future, with a view to the generating of additional environmental benefits based on the market mechanisms of the Kyoto Protocol for the benefit of Latin American and Caribbean projects.

Finally, as part of its commitment to sustainable development, CAF's Direction of the Environment is prepared to finance renewable and efficient energy, projects with or without a carbon or MDL component are being evaluated for qualifying projects in those categories.

Biodiversity Program – BioCAF

The general purpose of this program is to promote the conservation and sustainable utilization of strategic ecosystems, biodiversity and genetic resources, through the promotion of investment and trade in goods and services.

This year saw the beginning of the Biodiversity Based Business project in the Andean Region, with approximately \$ 905 thousand –of CAF resources, and funding from the World Environment Fund and the Andean countries. The purpose of the project that has started in Peru, Colombia and Ecuador– is to contribute to a more sustainable use of biodiversity and a more equitable distribution of its benefits. The principal goal is to remove barriers to the development of biodiverse businesses by implementing activities under six components that include legal, trade, financial and pilot project operations.

Another important BioCAF activity is the organization the New Ventures Investor Forum for Biodiversity, in a joint effort with the World Resources Institute and the United Nations Conference on Trade and Development. This event was the successful result of a one-year planning phase that involved contacting 265 enterprises of the five Andean countries and Brazil, 48 of which received training on how to structure business plans. At the conclusion, three businesses were chosen as winners: Ornamental Amazon Fish Aquarium (Peru); Coronilla (Bolivia) and Agroalegre (Ecuador).

During the year high level support workshops were held in the field of international negotiations, in a joint effort with the environmental department of the General Secretariat of the Andean Community. A workshop was held in Peru for negotiators in environment and intellectual property, related to biodiversity, in preparation for the future Free Trade Agreements under negotiation between some Andean countries and the United States. Meetings were also held in Peru and Caracas with experts from all Andean countries to propose policies for a future Andean Community Decision relating to the Protection of Traditional Knowledge.

In support to the promotion of biodiversity markets and the development of biotechnology, this year also saw the conclusion of the book on Biotechnology for the Sustainable Use of Biodiversity: Local Skills and Potential Markets, the result of a joint effort between CAF and CEPAL. The digital version can be found in www.caf.com/biocaf.

BioCAF also consolidated the participation of the Corporation in the Canaima–Expansion of Alliances for the National Parks System in Venezuela, developed jointly with the World Bank, Inparques, Edelca and the Ministry of the Environment and Natural Resources. In this context, an agreement was subscribed with the Indigenous Federation of Bolivar State. A new operation was identified related to Bofedales (saturated pasture lands) in the Bolivian Altiplano, where financing will be provided to operations that involve transmission lines and where CAF participates jointly with the IADB. An initiative was also identified –with the Governments of Colombia and Peru– for the comprehensive and sustainable management of the border forests of Tarapacá and Río Algodón, an operation to be financed with technical cooperation resources.

Sustainable Development Program for Financial Institutions

This program was created by CAF to promote sustainable development in the financial sector, by identifying the risks involved and the opportunities inherent in the emerging environmental service sector.

During the greater part of 2004, CAF presided over the Technical Secretariat for the Latin American Technical Work Group for the Financial Initiative of the United Nations Environmental Program. CAF financed the preparation of the initiative’s scoping paper, which identified specific environmental and social research opportunities in Latin American financial institutions. Furthermore, of the Initiative’s working group was launched and the reports of the Awareness Gatherings held in 2003 were published.

PREANDINO: reduction of natural disaster risks

The Andean Program for Disaster Risk Prevention and Mitigation (PREANDINO) directed its efforts, together with the institutions of the Andean countries, towards the development and consolidation of the program’s strategic operations, which include:

- *Incorporation of stakeholders.* The geographic scope of the program was expanded, with the inclusion of pilot projects, and the active participation of 261 new participants from 28 institutions in the PREANDINO network.

- *Advances in the development of legal and institutional frameworks and adjustments in the existing norms.* Specific efforts continued in various countries in support of these procedures. In Bolivia, support was given to the regulations of Law 2140 on Risk Reduction regarding the definition of competences within the framework of the new Executive Power Reorganization Law. In Colombia the efforts of the planning entities within the framework of the National System for Disaster Attention and Prevention continued by incorporating prevention criteria in the municipal plans for geographical organization. In Ecuador the national planning entity –SENAPLADES– was expanded to become the country’s governing body in the area of risk management and progress was made towards a National Risk Management System. Peru had an enriching experience with the structuring of the management group, supported by various cooperating entities: CAF, GTZ, IADB, CARE, PREDES, presided by the Board of the Council of Ministers. Progress was also made in the proposal for a national risk management system to be considered in the country’s planning system, and is now being discussed in the National Congress. Venezuela adjusted the proposal of the National Risk Management System, prepared during previous years and ratified by 36 national institutions during continued discussions, on the basis of observations by the National Assembly.

- *Preparation of strategies and plans for disaster risk reduction and incorporation of such considerations into investment and regulatory plans.* This year all Andean countries moved forward in the simultaneous adoption of risk reduction strategies to be incorporated into the national, sectoral and geographical development processes in each one of them, with various levels of progress. Bolivia reached agreements with CAF, GTZ and the Ministry of Sustainable Development to develop the bases of its geographical national strategy. Colombia advanced in providing increased specificity to the Prevention Plan, and achieved the initial results in its geographic integration. Ecuador concluded the foundation of the National Prevention Plan and the first versions of the sectoral energy and potable water plans, in addition to achieving important progress in the related instruments for road systems and transportation, housing and agriculture. With CAF’s cooperation, Peru concluded the physical diagnosis and the institutional and normative risk matrix and progressed in the instruments corresponding to geographical pilots. Venezuela initiated the process to create the national strategy for the incorporation of risk reduction. Furthermore, within the PREANDINO framework, the fourth regional meeting was held in Lima, Peru to provide a platform for 134 national and territorial institutional planning representatives of the countries to interchange experiences.

- *Development of tools that support process sustainability.* Within the framework of the operations supported by this program, 2004 saw the conclusion of the PREANDINO Network, comprised of 340 institutions and counting with the participation of 1,800 professionals. Support was also given to the development of synergies between cooperating entities and specialized agencies in the Andean Countries to support the processes that are being promoted by the program.

Regional promotion and dissemination of knowledge

Seminars and events

During 2004, CAF participated, organized and/or sponsored diverse integration seminars, aimed at supporting its own operations and businesses as well as promoting the region in international fora and investor events. Outstanding events were the following:

During the Annual Meeting of the IADB's Board of Governors, held in Lima, CAF organized a working breakfast with Merrill Lynch, Banco de Crédito del Perú and Latin Finance to reflect on various regional scenarios.



- *Business in Latin America* (FEB/04). This seminar, organized jointly with the magazine, Foreign Policy, included the publication of a supplement on CAN, Mercosur and CAF, which was distributed by the magazine to its clients during the World Economic Forum in Davos, 2004. The select audience included Professor JK Prahalad, who was the keynote speaker and whose thesis is based on the assertion that profitability in large business enterprises lies at the bottom of the socio-economic pyramid, for which reason they need to develop products and services that adjust to the requirements of the lower classes, contrary to the scheme of supply based on the needs of the higher income classes.

- *Political and Economic Challenges for Latin America* (MAR/04). Held within the framework of the Annual Meeting of the IADB's Board of Governors, this meeting with the participation of regional and international financial and political authorities and an important and select audience of the international financial community. This initiative was promoted by CAF in association with Merrill Lynch and Banco de Crédito del Perú.

CAF's executive president and the US trade representative, Robert Zoellick, during the eighth conference on commerce and investment between the United States and the region.



- *Risk Capital Investment* (MAR/04). This seminar, cosponsored by CAF and organized with the Latin American Venture Capital Association during the Annual Meeting of the IADB's Board of Governors, had as its main theme the legal and regulatory environment that influences the risk capital investment climate in the Andean region. Its participants included officials of the ministries of the region, managers of risk investment funds, and directors of development agencies.

- *IV Encounter of Former Latin American Presidents* (JUL/04). The theme of this summit dealt with identity and culture. Held in Madrid, Spain, it counted with the participation of 21 former Latin American presidents, who received a document prepared by CAF on Economics and Culture which will be published in the magazine of the Ortega y Gasset Foundation. Also, the book *Competitiveness: Towards a Latin American Agenda*, corresponding to the III Encounter, was edited and distributed.

- *Eighth Annual Conference on Trade and Investment Relations between the United States and the Region* (SEP/04). Organized jointly by CAF, the Inter American Dialogue and the Organization of American States and held in Washington, D.C. This conference is an important platform for discussion and analysis among political and economic authorities of the U.S., the Andean countries, the academic community and the media, regarding bilateral and multilateral economic political and financial relations.



An innovative event took place in Caracas during the closing of the second phase of CAF's Andean Competitiveness Program.

- *CAF's Encounter for Competitiveness* (OCT/04). Within the framework of masterful discussions and debates on clusters, perspectives, entrepreneurial skills, knowledge and social capital, the Andean Competitiveness Program (PAC) presented the results of the projects executed during phase II. Held in Caracas, the encounter brought together PAC's principal allies and a select audience of the Andean region and other Latin American countries.

- *Reflections on Resuming Growth* (NOV/04). This workshop presented the results of the first in a series of Reports on Economics and Development (RED 2004) to the members of CAF's Board of Directors. This year's theme is *Resuming growth in Latin America: trade, productivity and social inclusion*. The event counted with the participation of prominent academics and policymakers of the region. In order to return to a sustained growth path, the event concluded that the region needs to develop greater access to the international markets, to transform the productive apparatus to make it more competitive, and to achieve greater social inclusion.

- *Reflection Workshops on Development Policies* (OCT-NOV-DIC/04). As in previous years, CAF organized a series of reflection workshops on relevant matters for the region's public policies. The event counted with the participation of academic experts in the field and policymakers, as well as representatives of the private sector. The fora held during 2004 were Reforms and the Quality of Public Policies and, Natural Resources and Development

- CAF in the *Tenth Session of the Conference of the Parties (COP 10) on Climate Change* (DIC/04). CAF organized two high-level events in Buenos Aires, Argentina. The Mechanism for Clean Development (MDL) in Latin America and the Caribbean presented opportunities for investors. There was also a breakfast with the delegation leaders, including ministers, vice ministers and representatives of the Ministries of Foreign Affairs of the Corporation's shareholders countries.

- *Regional Training Program in the Use of the Condor Geographical Information System* (MAR-MAY/04). In a joint effort with the International Conservation Organization, workshops were held in the Andean countries to train more than 160 public- and private- sector professionals in the use of the Condor System. This activity was a landmark in the application of this system's environmental and social management tools, aimed at planning, execution and evaluation of large infrastructure projects in the Andean region.

- *The First Investor's Forum for Biodiversity Enterprises of the Andean Region and the Legal Amazonia of Brazil* (JUN/04). CAF organized this forum in Peru in a joint effort with UNCTAD and the New Ventures World Resources Institute. It helped a group of innovative enterprises in the Andean region and Brazil to present their business plans to an audience of investors, multilateral agencies and financial entities to demonstrate the financial and trade feasibility of their enterprises.

- *Forum Integrating Spirituality, Ecology and Economy for Sustainable Development* (SEP/04). Within the framework of the Encounter with the Buddha's Relics: All United for Peace in Venezuela, CAF offered its spaces to receive the delegation of the Lama Gangchen Foundation for Peace. This forum counted with the presence of the Lama Gangchen, Alfredo Sfeir Younis of the World Bank, Father Mikel De Viana of Universidad Católica Andrés Bello, Ramón Gil – Religious Leader "Mamo" of the Wiwa people of the Sierra Nevada of Santa Marta and Enrique García, CAF's executive president. A report of this event was published in a collection of reflections on environmental and economic values –within the context of ethics and spirituality provided by the speakers– and of current's paradigms of sustainable development.

- *South American Workshop of Transportation Authorities* (APR/04). On the occasion of the presentation of the book *Rails with a Future. Challenges for South American Railroads*, a workshop was held on the present situation of the different railroad systems in the region, as well as their future potential. Its participants were the highest decision making authorities on this topic, as well as representatives of the World Bank, the IADB, CEPAL, CAF and the Latin American Railroad Association.

- *Bolivia and its Regional Electrical Interconnection Seminar* (ABR/04). Given that during 2004 there were important advances in energy integration among the Andean countries, CAF promoted a seminar on Bolivia's adhesion to Decision 536 of the Andean Community. During the event held in La Paz, the multiple benefits of this Decision were evaluated and it was unanimously decided to have Bolivia adhere to this framework of energy integration.



In an environment of reflection and human solidarity, Lama Gangchen and CAF's executive president shared environmental and economic values with the audience.

CAF's executive president, Enrique García, together with academic authorities of some of the Andean universities during the subscription of the Program for Governance and Political Management agreement, whose objective is to train a critical mass of leaders in government administration and political dynamics.



- *Sixth Meeting of the Executive Directors Committee (CDE) of the IIRSA Initiative (NOV/04).* The ministers responsible to review the advances made by the IIRSA Initiative and to provide guidelines for the projects to be executed during 2005, met on the eve of the Third Meeting of South American Presidents. During this meeting, importance was given to the creation of a Portfolio of Projects for South American Physical Integration (IIRSA), which has more than 300 investment projects.

- *Governance related events.* During 2004, two important meetings were held with the participation of diverse stakeholders. In January the *First Youth Summit of the Andean Community*, brought together youngsters of the Andean countries and other CAF shareholder nations, to interchange ideas and provide feedback on their successful experiences as directors of projects that have contributed remarkably to the development of their communities. During the Summit, working groups were held on globalization, education, democracy, employment, the environment and health, with interesting conclusions and recommendations. Support was also provided to the *International Congress on the Reform of the State and Public Administration* held by the Latin American Administration Center for Development (known by its Spanish acronym CLAD), forum that has become a reference for governmental, academic, international authorities and consultants specialized in Latin America, the Caribbean and other countries to meet and debate on the management of public matters.

- *Seminars for reporters, editors and owners of social communications media.* During 2004, CAF continued its training program for the region's communicators to promote reflection, analysis and discussion on the most important matters of the regional agenda, as well as other topics aimed at the various aspects of journalism. These encounters were CAF's joint effort with diverse institutions, such as the New Latin American Journalism Foundation (FNPI), with which the Corporation signed an agreement in 2003. Four debate encounters were also held, such as the II CAF/GDA Seminar on *The impact of corruption on democratic governance*, with Grupo Diarios de América; the II Round Table on quality and journalistic enterprise organized with the FNPI on *The quest for journalistic quality and the transformation of professional journalism*, the X Euro Latin American Communication

The quest for journalistic quality was the central theme of the second round table that took place in Monterrey, Mexico, within the framework of the agreement between the New Latin American Journalism Foundation and CAF. Sitting, center, is the president of this foundation, Gabriel García Márquez, Nobel Prize winner for Literature.



Forum: *The press under democratic game rules*, which was held in San José, Costa Rica, at the Summit of Latin American Presidents; and, the V CAF Encounter of Economics Editors. 307 journalists, editors and directors from all Latin America attended these encounters, which no have become ideal spaces for journalistic analyses of the region.

Publications

In 2004, CAF's publications were principally aimed at infrastructure, competitiveness, the economy and regional integration, emphasizing the dissemination of critical topics related to the renewed development agenda for Latin America.

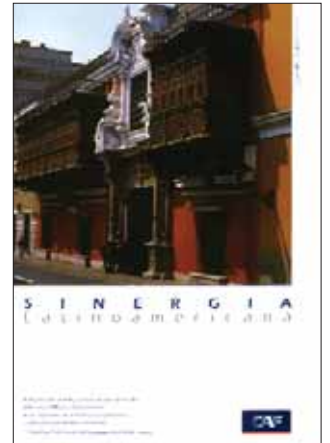
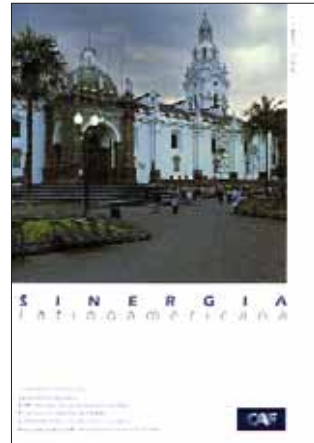
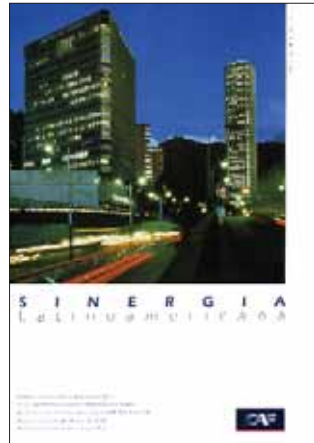
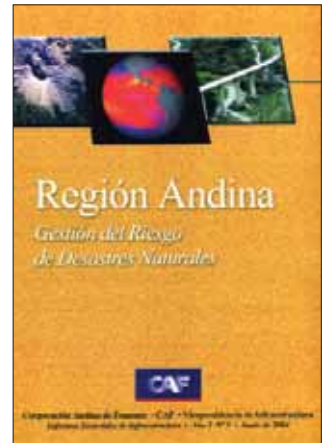
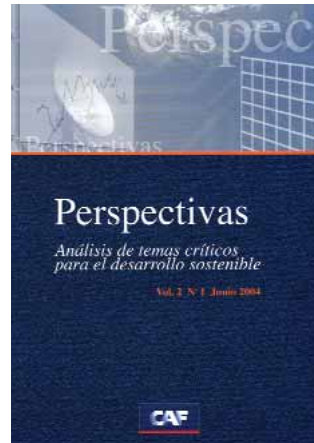
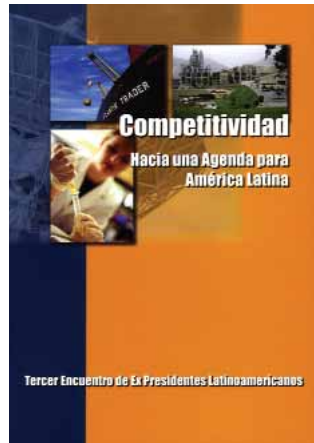
In the area of infrastructure, the book *Rails with a Future. Challenges for South American Railroads*, was published. It is an extensive research effort that shows the importance of incorporating the topic of railroads into the sectoral analyses of the countries. Likewise, the publication of the Sectoral Reports, based on consultations with relevant participants and on public information sources, continued for the second consecutive year. These reports present an analysis of the regulatory frameworks, institutional arrangements and indicators of the evolution of diverse sectors, as well as tendencies and proposals being considered in the industry. Suggestions are also made on public policies that would help increase efficiency in the sector and improve equity in the provision of basic services. Among the topics published during 2004 are: *Analysis of the Electrical Sector* (Bolivia and Venezuela), *Analysis of the Telecommunications Sector* (Colombia and Venezuela), *Analysis of the Transportation Sector* (Bolivia and Peru), *Analysis of the Waterworks Sector* (Ecuador and Venezuela) and *The Andean Region: Natural Disaster Risk Management*.

Also published were *Fiscal Sustainability in the Andean Region: Policies and Institutions* –prepared by CAF's economists, with the participation of renowned academics and economic authorities of the region– and *Competitiveness: Towards an Agenda for Latin America*, which were the result of the annual meetings of former Latin American presidents, an initiative that CAF, together with CEPAL and the Ortega y Gasset Foundation, has supported from its onset. Recognized for its high academic value, in 2004 CAF's bi-annual publication *Perspectives: Analysis of Critical Topics for Sustainable Development*, reached its second year. This journal helps disseminate research by professionals of the Corporation and investigators participating in the Economic Development Research Program.

Within the framework of the Andean Competitiveness Program (PAC), the production of 26 brief publications began in 2004. These publications are aimed at disseminating information on the principal projects developed by PAC during the last two years and will be distributed in 2005.

This year saw the beginning of two collections of high impact for the region. One of them: *Report on the Economy and Development* includes research that each year will develop a theme of relevance for Latin America; the 2004 publication contains a series of contributions on how to achieve sustained and quality economic growth to improve the standard of living of Latin Americans (*see Box p. 23*). The other collection: *XXI Century Journalists: Spaces for Creative Debate* aims at the professional formation and responsibility of the region's journalists and evidences the role played by CAF in promoting to sustainable development.

In alliance with the Spanish firm Interdin & Ahead Advisory Group and various regional institutions the *Guidelines for a Code of Corporate Governance* were published. This publication, which is available only in digital form, brings together a set of basic norms that define internationally accepted standards. By implementing the recommendations of this document, CAF helps the region's enterprises to manage their business with more transparency, efficiency and honesty. As regards environmental issues, the publication *Sustainable Finance and Development*, includes the results of meetings with financial institutions to increase their awareness of the environment in their operations and of the opportunities arising from environmental considerations.



Dissemination of knowledge

During 2004, CAF's publications were oriented towards the dissemination of critical topics aimed at supporting the renewed development agenda being furthered in Latin America, emphasizing the areas of infrastructure, economic competitiveness and regional integration.

As part of CAF's external communications activities, the 13th issue of the magazine *Latin American Synergy* was published; this publication aims at a wide spectrum of subscribers—in both printed and digital versions—to provide them with reliable information on CAF's diverse activities and its contribution to achieving a more competitive, integrated and sustainable region.

For more information, these publications can be accessed through: www.caf.com/publicaciones.

Organizational issues

The Corporation's present and future activities, requires maintaining a permanent program of institutional modernization and updating, so that it may successfully face the challenges it faces. During 2004, most organizational activities concentrated on strengthening its business processes in areas of strategic importance for the region's sustainable development, especially the social and private sectors, while consolidating CAF's leadership in its traditional operations to maintain and increase its competitive advantages in these sectors.

In this context, CAF's organizational structure was adjusted with the creation of the Vice Presidency of Social and Environmental Development, in order to optimize investments and operations in these sectors, as well as in the micro-, small- and medium-size enterprises, through which CAF has long contributed to improve the living conditions of the region's inhabitants. Similarly the Vice Presidency of Corporate Finance and Investment Banking was established to consolidate operations with the region's private sector, financial systems and capital markets, and to better focus on the countries' strategic areas and in transactions that increased value added to clients. It also seeks to increase the Corporation's catalytic role with local and international banking systems. The Representation Offices were also strengthened by transferring the responsibility for the administration, follow-up and supervision of the loan portfolios. This will improve the follow-up and quality control procedures of corporate operations. The implementation of these organizational adjustments generated changes in personnel assignments and in critical procedures associated to CAF's processes, systems and support applications.

The Corporation's activities continued in the development of the Business Continuity Plan, whose objective is to maintain the Corporation's critical processes operating in the event of a contingency or force majeure; there was also important progress in the development of a funds administration system, the constitution of a back-up technology center located in the NAP of the Americas in Miami and improvements in the Corporation's networks and telecommunications system.

The constitution of the Corporate Comptroller's Office in 2003 allowed for substantial progress in strengthening a comprehensive risk analysis, in the administration of norms and in structuring the ex-post evaluation function. Specifically, the Risk Matrix which was completed, defines the classifications and parameters necessary to evaluate and project the probability and impact of all risks to which the Corporation is exposed. The preparation of norms for the prevention and detection of money laundering, and the establishment of guidelines related to the management of CAF's norms were also completed.

As for external communications, CAF's presence and image were strengthened with the communications media and targeted audiences. Various tools were also developed to help employees project a coherent and unified corporate image and identity. Also in 2004, the presentation and structure of CAF's Website was renewed and restructured.

Likewise, as part of CAF's contribution to the dissemination of knowledge assets relating to development—whether generated by the Corporation itself or by important organizations that operate



internationally in the same field— alliances were established to promote the distribution of information and knowledge assets both through the staff of such organizations and to the general public interested in the topic. A first step was taken in this context, with the opening of the Information Center for Development (CIDES), based on an agreement subscribed between CAF and the World Bank, through which selected publications of both institutions are disseminated in an Internet Site.

CAF's executive president, Enrique García, and the World Bank's sub-regional director, Marcelo Guigale, during the CIDES presentation act at CAF's headquarters in Caracas, Venezuela.

A screenshot of the CAF website homepage. The page features a search bar at the top right with the text 'Ingrese palabras clave' and a 'BUSCAR' button. Below the search bar is a navigation menu with links for 'English version', 'LA CORPORACIÓN', 'PRODUCTOS Y SERVICIOS', 'PROGRAMAS ESTRATÉGICOS', 'ACTUALIDAD', 'PUBLICACIONES', 'ÓRGANOS COLEGIADOS', 'EMPLEO', 'CONSULTORES DE EVALUACIÓN EX-POST', 'PREGUNTAS FRECUENTES', 'CONTACTENOS', 'SUSCRÍBASE', and 'MAPA DEL SITIO'. The main content area is divided into several sections: 'CAF DÍA A DÍA' (dated 23 de febrero de 2005) featuring the 'Premio Anaconda de video indígena' (22.02.05) with a graphic of a person's head and a snake; 'PAÍSES ACCIONISTAS' listing countries like Bolivia, Colombia, Ecuador, Peru, Venezuela, Argentina, Brazil, Chile, Costa Rica, España, Jamaica, Mexico, Panamá, Paraguay, República Dominicana, Trinidad y Tobago, and Uruguay; 'EVENTOS' listing 'Programa de Investigación sobre Temas de Desarrollo' (30.11.04 - 30.03.05), 'Innovaciones en Microfinanzas: Alcances y Desafíos' (24.02.05 - 25.02.05), 'Lo Sagrado y lo Mágico de los Andes Bolivianos' (09.03.05 - 09.04.05), and 'Seminario de Oportunidades de Colaboración en España' (12.02.04); 'NOVEDADES' featuring 'Reflexiones para retomar el crecimiento' and 'Informe Anual 2003'; and 'SUBPORTALES' listing various programs like Biocaf, Cándor - Sistema de Información Geográfica, Cultura y Comunidad, Gobernabilidad, IIRSA - CAF, Kemmerer, Programa Andino de Competitividad (PAC), and Programa Latinoamericano del Carbono (PLAC).

After being dynamically restructured in 2004, CAF's Website now has informative segments that are more attractive and user friendly.

Clients, products and services

CAF, A STEADILY GROWING MULTILATERAL source of financing for its shareholder countries, provides its clients with resources to promote integration, sustainable development, trade and investment, all within a framework of efficiency, profitability and competitiveness. The Corporation raises resources in the international financial markets, and channels them into multiple, high value-added financial services, which it provides in a timely manner. CAF designs its products and services to meet its clients' requirements, and to take advantage of prevailing market opportunities.

CAF's clients

CAF makes its products and services available to the governments of its member countries, as well as to public, private and joint ventures operating in the productive and financial sectors in these countries.

Products and services

Briefly described, CAF's principal products and services are the following:

- Short-, medium- and long-term loans.
- Structured finance and limited-recourse project finance.
- Co-financing with either multilateral or official national institutions, as well as with international banks - including A/B loans.
- Investment banking and financial advisory services.
- Guarantees.
- Equity investments.
- Treasury products
- Technical cooperation.
- Other services.

Loans

CAF's principal line of business is lending short term (up to one year), medium term (1 to 5 years), and long term (over 5 years), to finance investment projects and other requirements of member-country governments, as well as of the public and private corporate and financial sectors. CAF also provides lines of credit to finance import and export operations, and working capital requirements.

- Project loans can be used to finance virtually any investment category in the various sectors in which the Corporation is active.
- Project finance can be made available as non-recourse or limited-recourse lending.
- Acting as a second-tier lender, CAF provides loans and lines of credit to public or private financial institutions that, in turn lend the funds to end-users, such as small- and medium-size enterprises.
- The Corporation also makes loans to help develop small- and medium-size enterprises and microfinancial corporations.

Co-financing

CAF undertakes co-financing operations to attract additional external resources to the region, thereby substantially increasing the flow of financing for public and private investments to assist its clients. CAF's partners in co-financing operations are other multilateral organizations, government agencies, and international commercial banks, the latter mostly through A/B loans.

Investment banking and financial advisory services

CAF supports clients through investment banking operations that help add value to its traditional products and to provide comprehensive financial services. Included are consulting services for structured financial transactions, used to put together highly complex operations designed to fit each indi-

vidual client's financing requirements. Financial consulting is provided in connection with concessions, privatizations and public bidding processes, as well as in the search for preferable financing options for the private sector. In certain cases CAF may also structure the transaction.

Guarantees

CAF can provide guarantees to corporations and to financial institutions in support of credit supplied to its clients from other sources. This line of products includes partial guarantees to enhance the credit rating of bond issues and borrowings, and to assist in the establishment of structured trust funds. CAF may also underwrite the placement of fixed-income securities in the region's capital markets, thereby not only securing the required funding for its clients, but also promoting the development of such markets.

Equity investments

CAF's equity investments are mostly in investment funds, which in turn channel resources to specific ventures. Only exceptionally will CAF consider taking a direct equity position in a given corporation or financial institution.

To assist with the special needs of small- and medium-size firms, CAF has established a Business Investment and Development Fund for Small- and Medium-Size Enterprises (FIDE), which is able to take equity positions in such firms, as well as to participate in the capital of investment funds and regulated financial institutions specialized in supporting such enterprises.

Treasury products

CAF's treasury products are provided exclusively to its regional clients. Such services include the placement of regional bond issues, and the acceptance of deposits through a money desk. Operations range from very short term, such as overnight deposits, to up to three years, thereby fitting a variety of clients' needs. Fund management services are also provided by CAF in this connection.

Technical cooperation

Using resources earmarked for this purpose, CAF funds specialized operations designed to strengthen technical capabilities in the member countries. Depending upon its particular nature and purpose, a technical assistance operation can be made reimbursable, non-reimbursable or contingent-recovery.

Technical assistance operations are channeled towards such areas as government-sponsored modernization of the state; privatization, decentralization and institutional reform; export and investment promotion; development and integration of regional capital markets; application of technology for competitiveness; environmental protection; programs for cultural and community development, and traditional art training; in short, to efforts with high social, developmental and integrationist content.

CAF has established a special program for the Andean region, the Human Development Fund (Fondeshu), to cater for the most needy rural sectors and to promote productive community development projects that have innovative components and which have been seen to be successful. Fondeshu's resources are also used to finance selected micro-financial organizations, and to aid their institutional strengthening efforts.

Administration of third-party funds

CAF manages and supervises the use of certain funds supplied by donor countries and agencies, most often on a non-reimbursable basis, as long as their objectives and their conditions are coherent with CAF's policies and strategies. An example of this type of arrangement is one with the International Fund for Agricultural Development (IFAD), designed to alleviate rural hunger and poverty, and to improve the living standards of the indigenous people in the region. Another is the technical cooperation fund established by the Spanish Ministry of Economy, aimed at funding preinvestment projects in integration, institutional reform, infrastructure, energy, social development and environmental protection.





Financial statements



Independent auditor's report	p. 113
Balance sheets	p. 114
Statements of income	p. 115
Statements of stockholders' equity	p. 116
Statements of cash flows	p. 117
Notes to financial statements	p. 119

Independent auditors' report

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

We have audited the accompanying balance sheets of Corporación Andina de Fomento (CAF) as of December 31, 2004 and 2003, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Corporación Andina de Fomento (CAF) as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

January 28, 2005
Caracas, Venezuela

KPMG



KPMG Alcaraz Cabrera Vazquez
Firma venezolana miembro de
KPMG Internacional, una cooperativa Suiza

Balance sheets

Corporación Andina de Fomento

Annual Report 2004

Balance sheets. December 31, 2004 and 2003

(In thousands of U.S. dollars)

Assets	Note	2004	2003
Cash and due from banks		2,753	2,452
Deposits with banks	2	369,990	605,237
Securities purchased under resale agreements		-	25,000
Marketable securities			
Trading	3	1,017,716	637,859
Held-to-maturity	3	166,362	317,004
Other investments	2	170,521	95,506
Loans	4	7,104,123	6,597,243
Less allowance for losses	4	181,801	209,766
Loans, net of allowance for losses		6,922,322	6,387,477
Equity investments	5	112,135	115,027
Interest and commissions receivable		151,047	135,201
Property and equipment	6	12,612	10,331
Other assets	7	660,511	486,523
Total assets		9,585,969	8,817,617
Liabilities and Stockholders' Equity			
Deposits	8	205,346	278,172
Commercial paper	9	712,406	673,210
Advances and short-term borrowings		529,190	465,985
Bonds	10	4,574,718	4,291,999
Borrowings and other obligations	11	574,959	418,517
Accrued interest and commissions payable		95,857	98,177
Accrued expenses and other liabilities	12	100,852	211,401
Total liabilities		6,793,328	6,437,461
Subscribed and paid-in capital (authorized capital US\$5,000 million)		1,498,675	1,318,555
Additional paid-in capital		220,072	173,460
Reserves		866,141	752,608
Retained earnings		207,753	135,533
Total stockholders' equity	13	2,792,641	2,380,156
Total liabilities and stockholders' equity		9,585,969	8,817,617

See accompanying notes to the financial statements.

Statements of income

Corporación Andina de Fomento

Annual Report 2004

Statements of income. Years ended December 31, 2004 and 2003

(In thousands of U.S. dollars)

	Note	2004	2003
Interest income			
Loans	1(f)	327,363	279,085
Investments and deposits with banks	1(e)	27,992	25,737
Loan commissions	1(f)	23,352	22,244
Total interest income		378,707	327,066
Interest expense			
Deposits		3,359	3,065
Commercial paper		8,852	5,816
Advances and short-term borrowings		8,250	7,289
Bonds		123,919	103,692
Borrowings and other obligations		11,392	9,894
Commissions		5,094	7,496
Total interest expense		160,866	137,252
Net interest income		217,841	189,814
Provision (credit) for loan losses	4	(18,555)	25,250
Net interest income, after provision (credit) for loan losses		236,396	164,564
Non-interest income			
Other commissions		2,548	3,307
Impairment charge for equity investments	5	(1,694)	(3,133)
Dividends and equity in earnings of investees		8,137	5,094
Effects of applying FAS 133		(828)	1,011
Other income		1,542	1,676
Total non-interest income		9,705	7,955
Non-interest expenses			
Administrative expenses		38,120	34,783
Other expenses		228	2,203
Total non-interest expenses		38,348	36,986
Net income		207,753	135,533

See accompanying notes to the financial statements.

Statements of stockholders' equity

Corporación Andina de Fomento

Annual Report 2004

Statements of stockholders' equity. Years ended December 31, 2004 and 2003

(In thousands of U.S. dollars)

	Note	Subscribed and paid-in capital	Additional paid-in capital	General reserve	Reserve pursuant to Article No. 42 of by-laws	Total reserves	Retained earnings	Total stockholders' equity
Balances at December 31, 2002		1,170,520	112,094	464,282	179,720	644,002	127,106	2,053,722
Capital increase	13	99,260	110,032	-	-	-	-	209,292
Stock dividends	13	48,725	(48,725)	-	-	-	-	-
Treasury stock	13	50	59	-	-	-	-	109
Net income		-	-	-	-	-	135,533	135,533
Appropriated for general reserve	13	-	-	95,806	-	95,806	(95,806)	-
Appropriated for reserve pursuant to Article No. 42 of by-laws	13	-	-	-	12,800	12,800	(12,800)	-
Allocations to stockholders' funds	14	-	-	-	-	-	(18,500)	(18,500)
Balances at December 31, 2003		1,318,555	173,460	560,088	192,520	752,608	135,533	2,380,156
Capital increase	13	106,915	119,817	-	-	-	-	226,732
Stock dividends	13	73,205	(73,205)	-	-	-	-	-
Net income	13	-	-	-	-	-	207,753	207,753
Appropriated for general reserve	13	-	-	99,979	-	99,979	(99,979)	-
Appropriated for reserve pursuant to Article No. 42 of by-laws	13	-	-	-	13,554	13,554	(13,554)	-
Allocations to stockholders' funds	14	-	-	-	-	-	(22,000)	(22,000)
Balances at December 31, 2004		1,498,675	220,072	660,067	206,074	866,141	207,753	2,792,641

See accompanying notes to the financial statements.

Statements of cash flows

Corporación Andina de Fomento

Annual Report 2004

Statements of cash flows. Years ended December 31, 2004 and 2003

(In thousands of U.S. dollars)

	Note	2004	2003
Cash flows from operating activities -			
Net income		207,753	135,533
Adjustments to reconcile net income to net cash provided by (used in) operating activities -			
Provision (credit) for loan losses	4	(18,555)	25,250
Impairment charge for equity investments	5	1,694	3,133
Equity in earnings of investees		(6,138)	(3,388)
Amortization of deferred charges		2,764	2,330
Depreciation of property and equipment	6	2,735	2,360
Provision for employees' severance indemnities and benefits		3,775	3,877
Provision for employees' savings plan		1,464	1,415
Net changes in operating assets and liabilities			
Securities purchased under resale agreements		25,000	-
Net loss (gain) on sale of trading securities	3	2,019	(205)
Severance indemnities paid or advanced		3,791	3,319
Employees' savings plan paid or advanced		(559)	277
Trading securities	3	(381,876)	(97,172)
Interest and commissions receivable		(15,846)	7,971
Other assets		20,449	(11,297)
Accrued interest and commissions payable		(2,320)	(7,960)
Accrued expenses and other liabilities		(11,332)	472
Total adjustments and net changes in operating assets and liabilities		(372,935)	(69,618)
Net cash provided by (used in) operating activities		(165,182)	65,915
Cash flows from investing activities			
Purchases of held-to-maturity securities	3	(471,688)	(771,934)
Maturities of held-to-maturity securities		622,330	584,525
Other investments	2	(75,015)	(95,506)
Loan origination and principal collections, net	4	(521,984)	(542,472)
Equity investments	5	7,336	2,456
Purchases of property and equipment	6	(5,016)	(2,780)
Net cash used in investing activities		(444,037)	(825,711)
Carried forward		(609,219)	(759,796)

Statements of cash flows

Corporación Andina de Fomento

Annual Report 2004

continued

Statements of cash flows. Years ended December 31, 2004 and 2003

(In thousands of U.S. dollars)			
	Note	2004	2003
Brought forward		(609,219)	(759,796)
Cash flows from financing activities			
Net (decrease) increase in deposits		(72,826)	49,747
Net increase in commercial paper		35,790	172,189
Net (decrease) increase in advances and short-term borrowings		36,976	(80,447)
Proceeds from issuance of bonds	10	657,500	912,460
Repayment of bonds	10	(644,534)	(528,997)
Proceeds from borrowings and other obligations	11	244,166	69,924
Repayment of borrowings and other obligations	11	(87,531)	(122,171)
Allocations to stockholders' funds	14	(22,000)	(18,500)
Proceeds from issuance of shares	13	226,732	209,401
Net cash provided by financing activities		374,273	663,606
Net (decrease) increase in cash and cash equivalents		(234,946)	(96,190)
Cash and cash equivalents at beginning of year		607,689	703,879
Cash and cash equivalents at end of year		372,743	607,689
Consisting of :			
Cash and due from banks		2,753	2,452
Deposits with banks		369,990	605,237
		372,743	607,689
Supplemental disclosure:			
Interest paid during the year		157,993	138,575

See accompanying notes to the financial statements.

Notes to financial statements

Corporación Andina de Fomento.

Annual Report 2004

(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 and is a corporation under public international law which abides by the provisions of its by-laws. Shareholder countries are: Bolivia, Colombia, Ecuador, Peru and Venezuela, members of the Andean Community, together with Argentina, Brazil, Chile, Costa Rica, Jamaica, Mexico, Paraguay, Panama, Spain, Trinidad and Tobago and Uruguay, in addition to 16 banks of the region. 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 member countries.

(b) Financial Statements Presentation

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

In preparing financial statements in conformity with 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 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

Marketable securities at December 31, 2004 and 2003 consist of U.S. Treasury and debt 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. 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 of 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 in shareholder countries and their participation in the securities markets and to serve as a catalytic agent in attracting resources into the region.

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 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 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 loans effective interest rate.

Loan losses are charged against the allowance when the 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 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) 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 other 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:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
U.S. dollars	363,564	593,394
Other currencies	6,426	11,843
	369,990	605,237

Deposits with maturities of over 90 days and less than 180 days are reported in the balance sheet as other investments.

(3) Marketable Securities

Trading Securities

A summary of trading securities follows:

(In thousands of U.S. dollars)

	Amount	Average maturity (years)	Average yield%
At December 31, 2004			
U. S. Treasury Notes	48,837	0.69	2.14
Bonds of non-U.S. governments and government entities	269,021	1.86	1.66
Financial institutions and corporate securities	699,858	1.8	2.47
	1,017,716	1.76	2.24
At December 31, 2003			
U. S. Treasury Notes	53,114	0.45	1.38
Bonds of non-U.S. governments and government entities	345,066	1.45	1.68
Financial institutions and corporate securities	239,679	1.6	1.82
	637,859	1.42	1.71

Trading securities include net unrealized gains of US\$ 391 and US\$ 236 at December 31, 2004 and 2003, respectively.

Held-to-Maturity Securities

A summary of held-to-maturity securities follows:

(In thousands of U.S. dollars)

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At December 31, 2004				
U. S. Treasury Notes	5,008	-	(75)	4,933
Bonds of non-U.S. governments and government entities	109,852	50	(100)	109,802
Financial institutions and corporate securities	51,502	-	(4)	51,498
	166,362	50	(179)	166,233
At December 31, 2003				
Bonds of non-U.S. governments and government entities	90,040	271	(1,330)	88,981
Financial institutions and corporate securities	226,964	343	(46)	227,261
	317,004	614	(1,376)	316,242

Held-to-maturity securities mature as follows:

(In thousands of

U.S. dollars)

	December 31	
	2004	2003
Remaining Maturities		
Less than one year	96,712	258,099
Between one and two years	53,000	24,266
Between two and three years	10,000	27,989
Between three and four years	6,650	-
Between four and five years	-	6,650
	166,362	317,004

(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 members of the Andean Community or with private institutions or companies of these countries.

Loans by country are summarized as follows:

(In thousands of U.S. dollars)

	Bolivia	Colombia	Ecuador	Peru	Venezuela	Other	Total
At December 31, 2004							
Loans	929,211	1,701,891	1,224,217	1,649,217	1,197,048	403,616	7,105,800
Fair value adjustments on hedging activities							(1,677)
Carrying value of loans							7,104,123
At December 31, 2003							
Loans	854,068	1,540,295	1,206,404	1,384,733	1,144,718	463,008	6,593,226
Fair value adjustments on hedging activities							4,017
Carrying value of loans							6,597,243

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, 2004 and 2003, loans in other currencies were granted for an equivalent of US\$ 253 and US\$ 733, respectively, principally in euro and yen. At December 31, 2004 and 2003, loans include fixed interest rate loans of US\$ 226,455 and US\$ 258,755, respectively.

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

(In thousands of U.S. dollars)

	December 31,			
	2004		2003	
	Amount	Average yield (%)	Amount	Average yield (%)
Loans	7,105,800	5.58	6,593,226	4.46

Loans by industry segments are as follows:

(In thousands of U.S. dollars)

	December 31,			
	2004	%	2003	%
Agriculture, hunting and forestry	264,402	4	281,334	4
Exploitation of mines and quarries	13,493	1	33,886	1
Manufacturing industry	162,571	2	189,305	3
Supply of electricity, gas and water	820,044	12	1,016,861	15
Transport, warehousing and communications	2,770,014	38	2,397,971	36
Commercial banks	373,934	5	463,826	7
Development banks	344,194	5	445,296	7
Social and other infrastructure programs	2,313,430	32	1,301,136	20
Other activities	43,718	1	463,611	7
	7,105,800	100	6,593,226	100

Loans mature as follows:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Remaining maturities		
Less than one year	1,220,458	1,184,353
Between one and two years	1,075,125	1,099,119
Between two and three years	945,027	1,000,321
Between three and four years	830,100	774,306
Between four and five years	653,946	636,640
Over five years	2,381,144	1,898,487
	7,105,800	6,593,226

At December 31, 2004 and 2003, all loans were performing except for certain loans which were classified as impaired and were in nonaccrual status. At December 31, 2004 and 2003, the carrying value of impaired loans was approximately US\$ 19,958 and US\$ 10,921, respectively. The average recorded investment in impaired loans during the years ended December 31, 2004 and 2003 was approximately US\$ 14,598 and US\$ 22,027, respectively.

Had these loans not been in impairment status, income for the years ended December 31, 2004 and 2003 would have increased by US\$ 901 and US\$ 1,793, respectively. During the year ended December 31, 2003, there were interest collections against impaired loans amounting to US\$ 534.

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 corresponding to the Corporation. During 2004, the Corporation administered loans of this nature whereby other financial institutions provided funds amounting to US\$ 112,500.

Allowance for Losses

Movements of the allowance for losses follow:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Balances at beginning of year	209,766	196,344
Provision charged to results of operations	(18,555)	25,250
Recoveries	3,522	6,970
Loans charged off	(12,932)	(18,798)
Balances at end of year	<u>181,801</u>	<u>209,766</u>

The allowance for credit losses was reduced by approximately US\$ 40,855 at 2004 year-end in accordance with the methodology described in note 1 (h).

(5) Equity Investments

A summary of equity investments follows:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Direct investments in companies (including investments accounted for using the equity method of US\$ 5,357 and US\$ 5,490, at December 31, 2004 and 2003, respectively)	11,277	12,413
Investment funds (including investments accounted for using the equity method of US\$ 69,543 and US\$ 66,406, at December 31, 2004 and 2003, respectively)	<u>100,858</u>	<u>102,614</u>
	<u>112,135</u>	<u>115,027</u>

The Corporation recorded an impairment charge of US\$ 1,694 and US\$ 3,133 for the years ended December 31, 2004 and 2003, respectively, related to equity investments accounted for at cost.

(6) Property and Equipment

A summary of property and equipment follows:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Buildings and improvements	26,699	26,100
Furniture and equipment	5,393	5,587
Vehicles	363	318
	35,455	32,005
Less accumulated depreciation	22,843	21,674
	12,612	10,331

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 and improvements	15 years
Furniture and equipment	2 to 5 years
Vehicles	5 years

(7) Other Assets

A summary of other assets follows:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Deferred charges	25,681	38,504
Derivative assets (see note 16)	626,081	429,710
Other assets	8,749	18,309
	660,511	486,523

(8) Deposits

The Corporation's deposits of US\$ 205,346 at December 31, 2004 mature in 2005 (US\$ 278,172 at December 31, 2003 - mature in 2004).

(9) Commercial Paper

The Corporation's commercial paper of US\$ 712,406 at December 31, 2004 matures in 2005 (US\$ 673,210 at December 31, 2003 - matures in 2004). At December 31, 2004 and 2003, the interest rates on commercial paper ranged from 2.14% to 2.46% and from 1.15% to 2.18%, respectively.

(10) Bonds

An analysis of bonds follows:

(In thousands of U.S. dollars)

	December 31,					
	2004			2003		
	<u>Principal outstanding</u> At original exchange rate	<u>At spot</u> exchange rate	<u>Weighted</u> average cost, after swaps (%)	<u>Principal outstanding</u> At original exchange rate	<u>At spot</u> exchange rate	<u>Weighted</u> average cost, after swaps (%)
U.S. dollars	2,602,640	2,602,640	3.59	2,451,573	2,451,573	2.69
Yen	201,613	240,755	2.85	201,613	233,754	2.04
Colombian Pesos	100,000	113,425	2.84	-	-	-
Pounds Sterling	272,055	336,054	5.24	272,598	310,730	3.87
Euros	810,917	1,115,692	3.61	1,048,475	1,337,400	2.52
	3,987,225	4,408,566		3,974,259	4,333,457	
Fair value adjustments on hedging activities		(166,152)			(41,458)	
Carrying value of bonds		4,574,718			4,291,999	

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:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Remaining maturities		
Less than one year	723,674	640,020
Between one and two years	294,484	724,488
Between two and three years	499,329	296,611
Between three and four years	-	121,725
Between four and five years	584,870	-
Over five years	1,884,868	2,191,415
	3,987,225	3,974,259

At December 31, 2004 and 2003, fixed interest rate bonds amounted to US\$ 3,090,175 and US\$ 3,579,175, respectively, of which US\$ 1,106,286 and US\$ 1,424,285, respectively, are denominated in yen, pounds sterling, colombian pesos and euros in 2004 and in yen, pounds sterling, and euros in 2003.

(11) Borrowings and Other Obligations

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

(In thousands of U.S. dollars)

	December 31,					
	2004			2003		
	<u>Principal outstanding At original exchange rate</u>	<u>At spot exchange rate</u>	<u>Weighted average cost, after swaps (%)</u>	<u>Principal outstanding At original exchange rate</u>	<u>At spot exchange rate</u>	<u>Weighted average cost, after swaps (%)</u>
U.S. dollars	530,835	530,835	2.86	363,195	363,195	1.9
Deutschmark (at spot rate)	-	-	-	1,637	1,637	5.5
Yen	27,455	33,706	2.99	35,299	42,076	2.34
Euros (at spot rate)	7,613	7,613	6.4	9,193	9,193	6.89
Other currencies (at spot rate)	1,962	1,962	-	1,906	1,906	-
	<u>567,865</u>	<u>574,116</u>		<u>411,230</u>	<u>418,007</u>	
Fair value adjustments on hedging activities		843			510	
Carrying value of borrowings and other obligations		<u>574,959</u>			<u>418,517</u>	

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

At December 31, 2004 and 2003, there are fixed interest-bearing borrowings and other obligations amounting to US\$ 27,836 and US\$ 33,739, respectively.

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

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Remaining maturities		
Less than one year	99,028	82,276
Between one and two years	79,266	83,213
Between two and three years	98,040	48,027
Between three and four years	50,210	46,300
Between four and five years	89,386	34,498
Over five years	151,935	116,916
	<u>567,865</u>	<u>411,230</u>

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

At December 31, 2004 and 2003 there were unused term credit facilities amounting to US\$ 80,000 and US\$ 63,300, respectively.

(12) Accrued Expenses and Other Liabilities

A summary of accrued expenses and other liabilities follows:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Employees' severance indemnities, benefits and savings plan	32,182	31,292
Derivative liabilities (see note 16)	-	107,688
Deferred income (including US\$ 55,159 in 2004 and US\$ 51,633 in 2003 of loan commissions, net of certain direct origination costs)	64,857	67,872
Other liabilities	3,813	4,549
	<u>100,852</u>	<u>211,401</u>

(13) Stockholders' Equity

Authorized Capital

The authorized capital of the Corporation at December 31, 2004 and 2003, 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 the five Andean Community member countries: 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 the five Andean Community member countries. 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 outside of the region. 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, 2004 and 2003, follows:

(In thousands of U.S. dollars)

	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
At December 31, 2002	5	219,993	12,911	6,000	1,099,965	64,555	1,170,520
Dividends in shares	-	9,212	533	-	46,060	2,665	48,725
Issued for cash	-	12,290	7,562	-	61,450	37,810	99,260
Treasury stock	-	10	-	-	50	-	50
At December 31, 2003	5	241,505	21,006	6,000	1,207,525	105,030	1,318,555
Dividends in shares	-	13,478	1,163	-	67,390	5,815	73,205
Issued for cash	-	14,739	6,644	-	73,695	33,220	106,915
At December 31, 2004	5	269,722	28,813	6,000	1,348,610	144,065	1,498,675

Subscribed and paid-in capital is held as follows at December 31, 2004:

(In thousands of U.S. dollars)

Stockholder	Number of Shares			Amounts			Total
	Serie "A"	Serie "B"	Serie "C"	Serie "A"	Serie "B"	Serie "C"	
Bolivia	1	20,815	-	1,200	104,075	-	105,275
Colombia	1	74,590	-	1,200	372,950	-	374,150
Ecuador	1	21,553	-	1,200	107,765	-	108,965
Peru	1	76,263	-	1,200	381,315	-	382,515
Venezuela	1	76,264	-	1,200	381,320	-	382,520
Brazil	-	-	8,496	-	-	42,480	42,480
Chile	-	-	278	-	-	1,390	1,390
Costa Rica	-	-	2,082	-	-	10,410	10,410
Spain	-	-	9,875	-	-	49,375	49,375
Jamaica	-	-	92	-	-	460	460
Mexico	-	-	2,983	-	-	14,915	14,915
Paraguay	-	-	1,156	-	-	5,780	5,780
Panama	-	-	1,179	-	-	5,895	5,895
Trinidad & Tobago	-	-	133	-	-	665	665
Uruguay	-	-	909	-	-	4,545	4,545
Argentina	-	-	1,630	-	-	8,150	8,150
Commercial banks	-	237	-	-	1,185	-	1,185
	5	269,722	28,813	6,000	1,348,610	144,065	1,498,675

At December 31, 2004, the distribution of unpaid subscribed capital and of subscribed callable capital is presented below:

(In thousands of U.S. dollars)

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	3,169	15,845	-	-	14,400	72,000	-	-
Colombia	10,222	51,110	-	-	50,400	252,000	-	-
Ecuador	2,451	12,255	-	-	14,400	72,000	-	-
Peru	8,620	43,100	-	-	50,400	252,000	-	-
Venezuela	8,619	43,095	-	-	50,400	252,000	-	-
Chile	-	-	-	-	-	-	800	4,000
Spain	-	-	-	-	-	-	40,000	200,000
Brazil	-	-	2,302	11,510	-	-	-	-
Jamaica	-	-	27	135	-	-	-	-
Uruguay	-	-	2,745	13,725	-	-	-	-
Argentina	-	-	794	3,970	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
	33,081	165,405	5,868	29,340	180,000	900,000	42,400	212,000

Subscribed and paid-in capital is held as follows at December 31, 2003:

(In thousands of U.S. dollars)

Stockholder	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
Bolivia	1	18,896	-	1,200	94,480	-	95,680
Colombia	1	66,769	-	1,200	333,845	-	335,045
Ecuador	1	19,255	-	1,200	96,275	-	97,475
Peru	1	68,180	-	1,200	340,900	-	342,100
Venezuela	1	68,180	-	1,200	340,900	-	342,100
Brazil	-	-	5,869	-	-	29,345	29,345
Chile	-	-	264	-	-	1,320	1,320
Costa Rica	-	-	1,973	-	-	9,865	9,865
Spain	-	-	6,348	-	-	31,740	31,740
Jamaica	-	-	88	-	-	440	440
Mexico	-	-	2,826	-	-	14,130	14,130
Paraguay	-	-	1,096	-	-	5,480	5,480
Panama	-	-	1,117	-	-	5,585	5,585
Trinidad & Tobago	-	-	126	-	-	630	630
Uruguay	-	-	506	-	-	2,530	2,530
Argentina	-	-	793	-	-	3,965	3,965
Commercial banks	-	225	-	-	1,125	-	1,125
	5	241,505	21,006	6,000	1,207,525	105,030	1,318,555

At December 31, 2003, the distribution of unpaid subscribed capital and of subscribed callable capital is presented below:

(In thousands of U.S. dollars)

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	4,026	20,130	-	-	14,400	72,000	-	-
Colombia	14,321	71,605	-	-	50,400	252,000	-	-
Ecuador	3,667	18,335	-	-	14,400	72,000	-	-
Peru	12,903	64,515	-	-	50,400	252,000	-	-
Venezuela	12,903	64,515	-	-	50,400	252,000	-	-
Chile	-	-	-	-	-	-	800	4,000
Spain	-	-	3,175	15,875	-	-	40,000	200,000
Jamaica	-	-	27	135	-	-	-	-
Uruguay	-	-	1,358	6,790	-	-	-	-
Argentina	-	-	1,587	7,935	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
	47,820	239,100	6,147	30,735	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\$ 99,979 and US\$ 95,806 during the years ended December 31, 2004 and 2003, respectively, by appropriations from net income for the years ended December 31, 2003 and 2002, 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 2004 and 2003, it was authorized to increase the reserve by US\$ 13,554 and US\$12,800, from net income for the years ended December 31, 2003 and 2002, respectively.

(14) Allocations to Stockholders' Funds

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

In March 2004 and 2003, the stockholders agreed to allocate US\$ 22,000 and US\$ 18,500, respectively, from retained earnings at December 31, 2003 and 2002, respectively, to the stockholders' funds.

(15) 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.

(16) 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, 2004 and 2003:

(In thousands of U.S. dollars)

	Notional amount		Fair value	
	Interest rate swap	Cross-currency swap	Derivative derivatives assets	Derivative derivatives liabilities
At December 31, 2004				
Loans	45,000	-	1,677	-
Bonds	2,048,890	-	71,318	-
Bonds	-	1,384,987	516,021	-
Borrowings and other obligations	-	27,455	6,788	-
Commercial paper	-	119,921	3,919	-
Advances and short-term borrowings	-	262,961	26,358	-
	2,093,890	1,795,324	626,081	-
At December 31, 2003				
Loans	60,000	-	-	4,017
Bonds	2,019,890	-	-	103,671
Bonds	-	1,522,887	422,705	-
Borrowings and other obligations	-	35,299	7,005	-
	2,079,890	1,558,186	429,710	107,688

For the years ended December 31, 2004 and 2003 all of the Corporations' derivatives which have been designated in hedging relationships were considered fair value hedges. The change in fair value of such derivative instruments and the change in fair value of hedged items attributable to risk being hedged is included in the statements of income.

(17) Fair Value

The following table presents the carrying amounts and estimated fair values of the Corporations' financial instruments at December 31, 2004 and 2003. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties:

(In thousands of U.S. dollars)

	December 31,			
	2004 Estimated		2003 Estimated	
	Carrying amount	fair value	Carrying amount	fair value
Financial assets				
Cash and due from banks	2,753	2,753	2,452	2,452
Deposits with banks	369,990	369,990	605,237	605,237
Securities purchased under resale agreements	-	-	25,000	25,000
Trading securities	1,017,716	1,017,716	637,859	637,859
Held-to-maturity securities	166,362	166,233	317,004	316,242
Other investments	170,521	170,521	95,506	95,506
Loans, net of allowance for losses	6,922,322	6,937,688	6,387,477	6,408,739
Equity investments	112,135	112,135	115,027	115,027
Interest and commissions receivable	150,906	150,906	135,201	135,201
Derivative contracts (included in other assets)	626,081	626,081	429,710	429,710
Financial liabilities				
Deposits	205,346	205,346	278,172	278,172
Commercial paper	712,406	712,406	673,210	673,210
Advances and short-term borrowings	529,190	529,190	465,985	465,985
Bonds	4,574,718	4,578,908	4,291,999	4,442,768
Borrowings and other obligations	574,959	575,263	418,517	420,316
Derivative contracts (included in accrued expenses and other liabilities)	-	-	107,688	107,688
Accrued interest and commissions payable	95,857	95,857	98,177	98,177

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, securities purchased under resale agreements, 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.

(18) Commitments and Contingencies

Commitments and contingencies include the following:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Credit agreements subscribed	1,569,763	1,425,390
Lines of credit for foreign trade	507,051	570,270
Letters of credit for foreign trade	20,830	10,513
Guarantees	267,935	227,721

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, part 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:

(In thousands of U.S. dollars)

	December 31,	
	2004	2003
Less than one year	100,000	-
Between one and two years	2,850	100,000
Between two and three years	83,333	2,850
Between three and four years	-	83,333
Between four and five years	-	-
Over five years	81,752	41,538
	267,935	227,721

The carrying value of the guarantees at December 31, 2004 and 2003 was nil.

Litigation is currently pending against CAF and another entity in U.S. District Court for the Southern District of New York in connection with loans made to an Ecuadorian Company, (the “Ecuadorian Company”). The amount of the loan by CAF to the Ecuadorian Company was US\$ 12,600 of which US\$ 3,200 was disbursed. The Ecuadorian Company defaulted on the loan. The Ecuadorian Company is alleging that CAF breached the loan agreement by failing to make additional disbursements and that, consequently, the Ecuadorian Company suffered damages. The Ecuadorian Company is seeking judgment against CAF and the other entity for damages in an amount not less than US\$ 75,000 each. CAF contests the Ecuadorian Company’s claim and has asserted a counterclaim against the Ecuadorian Company for amounts owed under the loan agreement. In addition, CAF and the other co-defendant have added the Ecuadorian Company’s parent corporation, (the “Parent Corporation”), as a party to the case and have asserted cross claims against the Parent Corporation for amounts owed to the lenders under a sponsor support agreement. CAF does not believe the outcome of this claim will have a material adverse effect on its financial condition or results of operations.

Governing bodies

Corporación Andina de Fomento.

Shareholders Assembly¹

The Shareholders Assembly is the highest authority of CAF. Shareholders meetings can be regular -taking place once a year within ninety days following the end of the fiscal year- or Special. In both cases, the meetings are convened by the Executive President. The Assembly is composed of *Series "A"*, *"B"* and *"C"* shareholders. *Series "A"* and *Series "B"* shares have been subscribed by the governments of the five member countries or by public, semi-public or private institutions. *Series "C"* shares can be subscribed by governments or public and private institutions of countries outside the Andean region as well as by international organizations. The Assembly approves the annual report of the Board of Directors, and the audited financial statements, and determines the use of CAF's profits. It also elects the Board Members (in accordance with the provisions set forth in the Constitutive Agreement), appoints external auditors, and examines any other issues expressly submitted to it.

Board of Directors²

The Board of Directors consists of thirteen members and their alternates. Ten of its members are elected by shareholders of *Series "A"* and *"B"* for a three-year period and can be re-elected. Two Directors and their alternates are elected by the holders of *Series "C"* shares. The private banking and financial institutions of the subregion which hold *Series "B"* shares of the Corporation appoint one director and his alternate. The Board of Directors shall have the power to establish the policies of the Corporation and to appoint the Executive President, as well as to approve credit operations, the annual expense budget, the granting of guarantees or investments, and any other operation within CAF's objectives. Approval of certain operations is delegated to the Executive Committee or to the Executive President in accordance to the rules set forth by the Board of Directors.

Executive Committee

The Executive Committee was created by the Board of Directors in 1971. It consists of six directors appointed by *Series "A"* and *"B"* shareholders and is chaired by the Executive President. It is in charge of approving financial operations not exceeding the limits set forth by the Board of Directors.

Audit Committee

The Audit Committee was established by the Board of Directors in 1996. It consists of 4 members: the Chairman of the Board, who presides the Committee; two (2) directors elected by the Board and CAF's Executive President. The Committee recommends the selection and hiring of external auditors, and studies their annual work plan; it also reviews CAF's annual report and externally audited Financial Statements before these are submitted for approval to the Board and the Assembly; it reviews External Audit reports dealing with topics relevant to the effectiveness of the structure of internal control systems; and it also reviews the annual program for investment portfolio risk management and control, and the annual report on this program's execution.

Executive President

The Executive President is CAF's legal representative. He is in charge of the Corporation's general direction and management as well as all matters which have not been specifically entrusted to any other governing body. Likewise, he approves the strategic country and sector plans the institutional structures and processes under his authority, and 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 can be re-elected.

¹ The 35th meeting of the Shareholder's Regular Assembly was held on March 16, 2004.

² During 2004, the Board of Directors held four meetings: March 16, July 22 and November 30.

Board of Directors

(as of December 31, 2004)

President of the Board of Directors (2004-2005)*

Nelson Merentes

Minister of Finance, Venezuela

SERIE "A" Shareholders

BOLIVIA

Principal: Horst Grebe

Minister of Economic Development

Alternate: Juan Antonio Morales

President of Banco Central de Bolivia

COLOMBIA

Principal: Alberto Carrasquilla

Minister of Finance and Public Credit

Alternate: Jorge Humberto Botero

Minister of Foreign Trade

ECUADOR

Principal: Edgar Peñaherrera

General Manager of Corporación Financiera Nacional

Alternate: Ivonne Juez de Baki

Minister of Foreign Trade, Industry and Fishing

PERU

Principal: Alfredo Ferrero Diez Canseco

Minister of Foreign Trade and Tourism

Alternate: Pedro Pablo Kuczynski

Minister of the Economy and Finance

VENEZUELA

Principal: Nelson Merentes

Minister of Finance (since DIC/06/04)

Alternate: Jorge Giordani

Minister of Planning and Development

SERIE "B" Shareholders

BOLIVIA

Principal: Luis Carlos Jemio

Minister of Finance

Alternate:

* Through March, 2004, the Board was chaired by Jaime Quijandría Salmón. Minister of the Economy and Finance of Peru

COLOMBIA

Principal: Miguel Urrutia
General Manager of Banco de la República
Alternate: Santiago Montenegro
National Director of the Planning Department

ECUADOR

Principal: Mauricio Yépez
Minister of the Economy and Finance
Alternate: Mauricio Pareja
Acting General Manager of Banco Central del Ecuador

PERU

Principal: Daniel Schydrowsky R.
President of the Board of Directors of Corporación Financiera de Desarrollo (COFIDE)
Alternate: Luis Carranza U.
Vice Minister of the Economy and Finance

VENEZUELA

Principal: Wilmer Castro S.
Minister of Production and Trade
Alternate: Nelson Merentes
President of Banco de Desarrollo Económico y Social de Venezuela (until DIC/06/04)

SERIE “C” Shareholders

BRAZIL

Principal: José Carlos Rocha Miranda
Secretary of International Affairs. Ministry of Planning, the Budget and Administration

COSTA RICA

Alternate: Francisco de Paula Gutiérrez
President of Banco Central de Costa Rica

SPAIN

Principal: Pedro Solbes Mira
Second Vice President of the Government and Minister of the Economy and Finance

MEXICO

Alternate: Miguel Hakim Simón
Under Secretary for Latin America and the Caribbean. Secretary for International Affairs

PRIVATE BANK

Principal: Guillermo Lasso
Executive President of Banco de Guayaquil Ecuador
Alternate: José Antonio Colomer
Managing Director of BBVA Banco Continental Peru

Management

(as of December 31, 2004)

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

Director, Secretariat and Corporate Communications José Luis Ramírez

Director, Cultural and Community Development Ana Mercedes Botero

Corporate Vice President, Development Strategies and Chief Economist Fidel Jaramillo

Director, Economic Studies Luis Miguel Castilla

Corporate Vice President, Country Programs Lilliana Canale

Director, Regional Programs Alexis Gómez

Director, Governance and Technical Cooperation Elvira Lupo

Country Representative, Bolivia José Carrera

Country Representative, Brazil José Vicente Maldonado

Country Representative, Colombia Freddy Rojas

Country Representative, Ecuador Luis Palau

Country Representative, Peru Germán Jaramillo

Assistant Representative, Peru Ricardo Campins

Corporate Vice President, Infrastructure Antonio Juan Sosa

Director, Projects Manuel Llosa

Director, Sectoral Analysis and Programming Rolando Terrazas

Corporate Vice President, Corporate Finance and Investment Banking Peter Vonk

Director, Structured Financing Carmen Elena Carbonell

Director, Financial Institutions and Capital Markets Félix Bergel

Director, Corporate Banking Jesús Miramón

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

Director, Multilateral and Bank Financing Fernando Infante

Director, Treasury Eleonora Silva

Director, Accounting and Budget Marcos Subía

Director, Operations Control Germán Alzate

Director, Human Resources Seyril Siegel

Director, Information Technology Esteban Cover

Director, General Services Jaime Caycedo

Headquarters

Venezuela

Ave. Luis Roche, Torre CAF, Altamira, Caracas - Venezuela

Phone: (58 212) 209.2111 (Master)

Fax: (58 212) 209.2444

Po Box: Carmelitas 5086

E-mail: infocaf@caf.com

Regional Offices

Bolivia

Edificio Multicentro, Torre B, piso 9,

Calle Rosendo Gutiérrez, Esq. Ave. Arce, La Paz - Bolivia

Phone: (591 2) 2443333

Fax: (591 2) 2443049

Po Box: N° 550

E-mail: bolivia@caf.com

Brazil

Edificio Business Point, 2^{do} andar, salas 203 a 208, SAU/SUL,

Quadra 03, Lote 02, Bloco C. 70 070-934, Brasília DF - Brasil

Phone: (55 61) 2268414

Fax: (5561) 2250633

E-mail: brasil@caf.com

Colombia

Edificio ING. Bank, Carrera 9ª, N° 76-49, piso 7, Bogota - Colombia

Phone: (57 1) 3132311

Fax: (57 1) 3132787

Po Box: 17826

E-mail: colombia@caf.com

Ecuador

Edificio World Trade Center, Torre A, Piso 13,

Ave. 12 de Octubre N. 24-562 y Cordero, Quito - Ecuador

Phone: (593 2) 2224080

Fax: (593 2) 2222107

Po Box: 17-01-259

E-mail: ecuador@caf.com

Peru

Edificio Torre Siglo XXI, piso 9,

Ave. Enrique Canaval Moreyra N° 380, San Isidro - Lima 27 - Peru

Phone: (51 1) 2213566

Fax: (51 1) 2210968

Po Box: Lima 27

E-mail: peru@caf.com

Annual Report 2004 Corporación Andina de Fomento

ISBN 1315-9394

Coordination
Secretariat and Corporate Communications

Photographs
CAF Archive
Rohanna Mertens (Photos p. 56 - 64)
Saguapac. Cooperativa de Servicios Públicos
"Santa Cruz" LTDA. (Photo p. 114 - 115)

Type setting
Esther Petrone

Graphic design
Pedro Mancilla

Pre-press and printing
Editorial Arte

www.caf.com