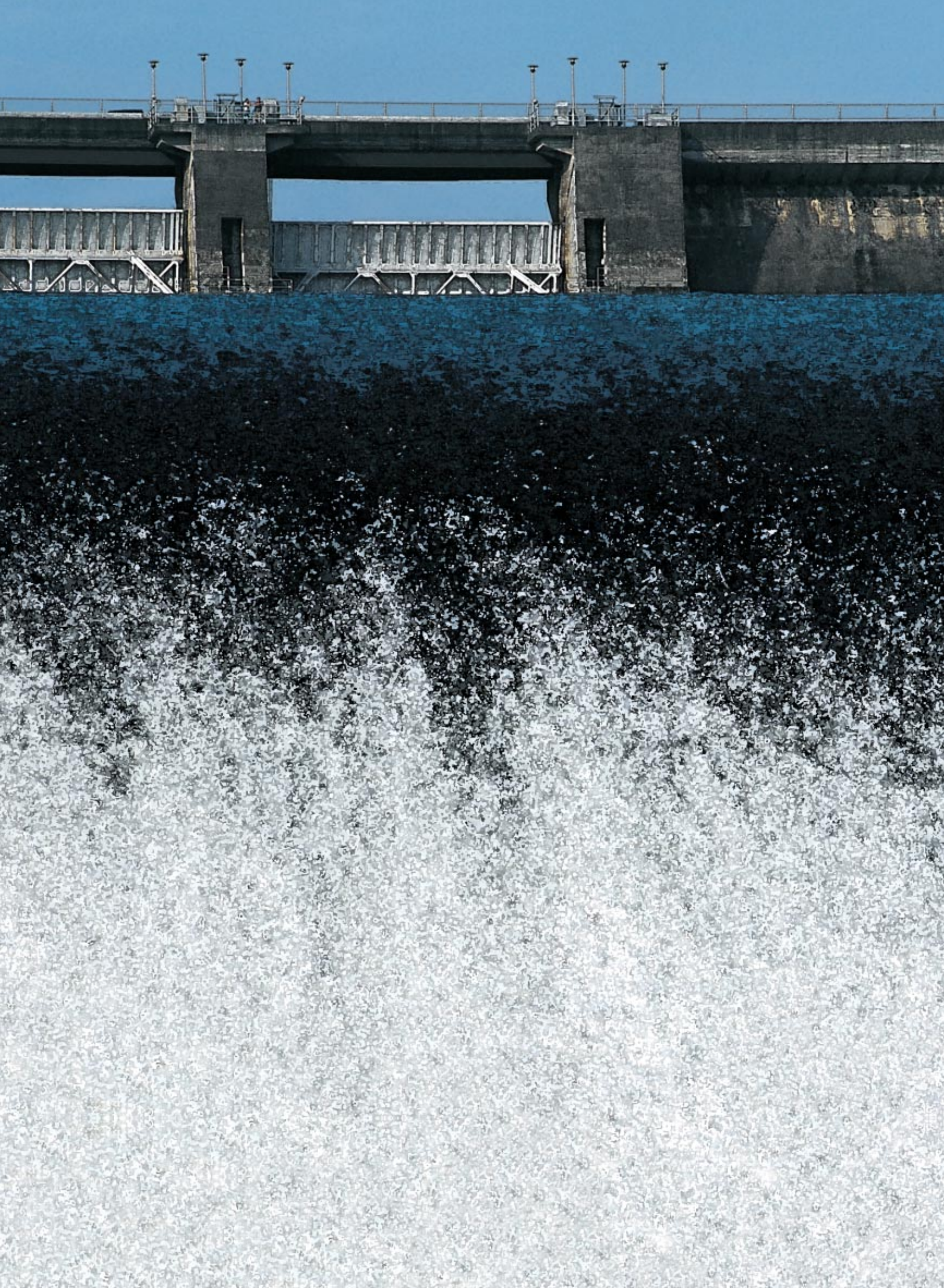


**Annual Report 2003** Corporación Andina de Fomento





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ANNUAL REPORT 2003

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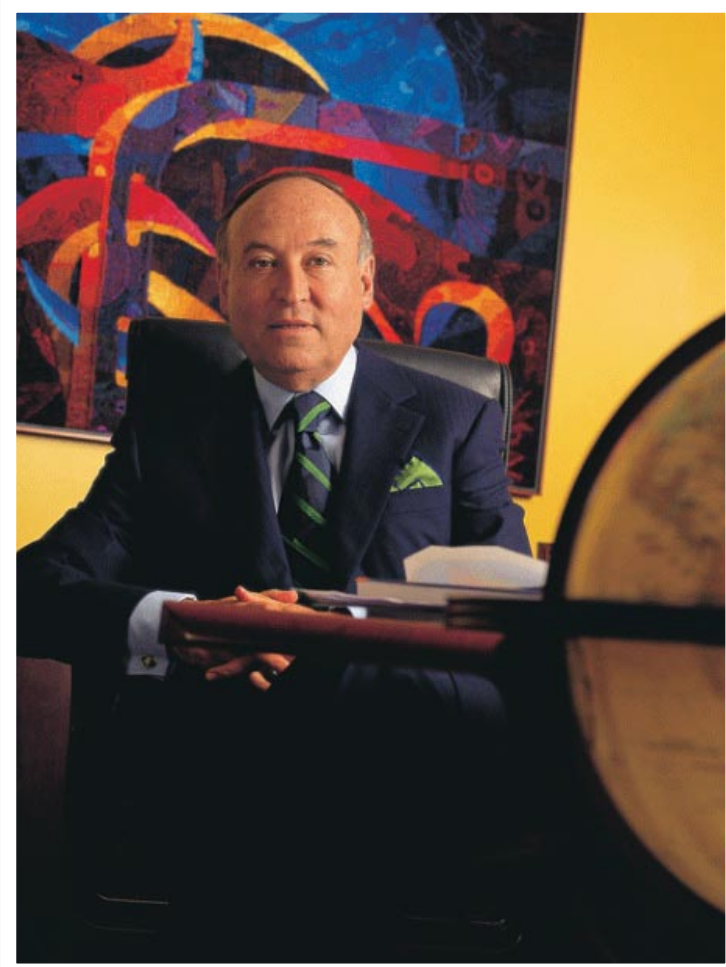
Corporación Andina de Fomento (CAF) is a multilateral financial institution which supports the sustainable development of its shareholder countries and integration efforts within the region. Its shareholders are the five countries of the Andean Community: Bolivia, Colombia, Ecuador, Peru and Venezuela,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

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

- Total assets: US\$ 8,818 million (US\$ 7,584 million in 2002)
- Liquid assets: US\$ 1,683 million (US\$ 1,399 million in 2002)
- Loan and investment portfolio: US\$ 6,712 million (US\$ 6,180 million in 2002)
- Paid-in capital: US\$ 1,319 million (US\$ 1,171 million in 2002)
- Shareholders' equity: US\$ 2,380 million (US\$ 2,054 million in 2002)
- Net profit: US\$ 136 million (US\$ 127 million in 2002)

### **CAF's most relevant accomplishments in 2003 included:**

- Reenacting its counter-cyclical and catalytic performance as the reliable supplier of resources to the region, with record lending in excess of \$3.3 billion.
- Receiving a record-setting amount of shareholder contributions into CAF's capital (\$209 million) as further evidence of their support for the institution and of their trust in its financial strength.
- Consolidating a wide-ranging base for research into and analysis of development topics, to shape the Corporation's approach to the shareholder-countries' strategies, and make it a leader in the efforts to design a new agenda for sustainable regional development.
- Continuing to advance its significant and multi-dimensional work as a coordinator of the process to integrate Latin America's physical infrastructure, by making weighty proposals in the areas of infrastructure and competitiveness, which seek to help the region to blend into the globalized economy in ways that are both efficient and equitable.
- Setting a new record with net income of \$136 million, notwithstanding the prevailing low interest rates.
- Maintaining an active presence in the international financial markets, with bond issues amounting to more than \$1.5 billion, and a credit rating that has earned it its standing as the most prestigious Latin American borrower.
- Receiving three awards for its performance in some of the most demanding financial markets: One as the best bond-issuing agency, one for having sponsored the year's best bond issue, and a third for being the best multi-lateral agency. CAF received these awards from Latin Finance and Euromoney, two of Europe's most prestigious specialized publications.
- Becoming the principal financing source for registered micro-finance institutions, thus deepening its commitment to the productive sector shared by these entities and S&MSE.
- Approving grants with cooperation funds in the amount of \$34 million, earmarked to support sustainable and equitable development, most particularly for the formation of human and social capital, governance enhancement, and help to the most vulnerable segments of the population.
- Contributing to strengthen the region's natural capital, by participating actively in the market for greenhouse effect reduction, and by playing a leading role in the bio-diversity field.



## Letter from the Executive President

ANNUAL REPORT 2003

I AM PLEASED TO PRESENT THE ANNUAL REPORT and audited Financial Statements for the fiscal year 2003.

In an international context that started to turn slowly in favor of Latin America's economies, the year yielded some signs of recovery and a renewal of foreign capital inflows, despite the persistence of structural conditions and market distortions in some countries that precluded the region from achieving higher rates of growth and employment.

In the course of this year CAF helped to mitigate risks and offset weaknesses in the region, focusing its efforts on promoting a growth pattern that is sustainable and of high quality, as well as inclusive and participatory. At the same time, it provided timely and efficient support to the member countries in accordance with their growing needs of external financing, particularly long-term.

The sustainable development agenda that is evolving in Latin America received strong support from CAF. Outstanding in this regard were the activities designed to enhance competitiveness and to support regional integration, particularly through the formation of physical and productive capital. At the same time, CAF expanded its activities aimed at human, natural and social capital formation.

In 2003 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 risk ratings. These achievements reflect the institution's continued support from its shareholders and Board of Directors, as well as the aggregate effort of its staff. To all of them I extend my gratitude.



L. Enrique García  
President & CEO

## The economic environment and regional integration

ANNUAL REPORT 2003

IN 2003 LATIN AMERICA APPEARS TO HAVE REACHED a turning point. After 2002's discouraging economic growth results, the region has begun to grow again and there is hope that 2004 will be a better year for Latin American countries. This is due mainly to a more favorable international environment, which has brought a recovery in capital flows towards the region and a revival of domestic financial markets.

Brazil's positive economic results in the midst of a difficult political transition and the recuperation of the Argentinian economy have contributed to a positive change in market sentiment towards the region, which in turn has contributed to the reduction of country risk associated with Latin American countries, increasing access to financing and strengthening some currencies. Furthermore, the panorama of regional integration, for all its difficulties, appears promising and important developments are predicted for 2004.

In this context, the prospects for the Andean countries in 2004 look positive. While Latin America is expected to grow by 4.1%, the countries of the Andean Community could expand by 4.7% in 2004. An important factor in 2004 will be the push given by non-traditional exports to expected economic growth.

### Main indicators

	ANDEAN COUNTRIES			LATIN AMERICA		
	2001	2002	2003*	2001	2002	2003*
<b>Real Sector</b>						
GDP (current millions US\$)	286,046	251,116	274,460	1,751,491	1,502,695	1,609,538
Real GDP Growth (%)	1.9	-1.2	-0.9	0.2	-0.9	1.6
Saving (% of GDP)	17.7	18.2	19.8	16.7	17.9	19.0
Investment (% of GDP)	17.0	17.1	16.9	19.2	18.6	18.3
Unemployment (%)	13.3	14.1	12.4	8.3	9.0	9.7
<b>External Sector</b>						
Exports FOB (millions US\$)	52,572	52,660	55,291	314,418	317,753	344,006
excluding Venezuela	25,846	26,441	29,541	287,692	291,534	318,256
Imports FOB (millions US\$)	43,608	39,517	39,684	304,188	280,233	290,759
Trade Balance (millions US\$)	8,964	13,143	15,607	10,230	37,520	53,247
excluding Venezuela	-371	-796	564	895	23,581	38,204
Current Account (% of GDP)	0.7	1.1	2.9	-2.5	-0.7	0.7
excluding Venezuela	-2.0	-2.5	-2.0	-3.1	-1.2	0.0
Net International Reserves (millions US\$)	33,203	34,304	43,797	146,530	145,151	180,574
Foreign Direct Investment (% of GDP)	2.7	2.3	2.5	3.7	2.5	2.8
Total External Debt (% of GDP)	44.2	49.6	41.6	37.8	42.3	42.4
<b>Fiscal Sector and Prices</b>						
Fiscal Balance NFPS* (% of GDP)	-4.2	-2.9	-3.8	-2.5	-2.5	-2.5
Primary Fiscal Balance (% of GDP)	-1.3	0.6	0.6	1.8	2.1	2.5
Inflation (% , end of period)	8.3	9.8	8.9	6.0	11.8	6.9
<b>Sector Financiero y Mercado de Capitales</b>						
Banking Sector Total Assets (millions US\$)	77,724	73,220	80,056	832,081	746,448	686,646
Nominal Portfolio Growth (%)	2.2	-16.1	7.1	-7.4	-14.1	6.5
Non-performing Loans (% of Total Loans) 1	12.1	10.6	9.2	6.0	4.0	3.6
Sovereign Bonds Spread (Basic points)	853	901	489	1,555	2,238	1,620

\* PRELIMINARY DATA

1/ Data for Latin America, excluding Argentina for which data are not available

Source: Department of Economics Research, CAF



Nonetheless, the region still suffers from persistent vulnerabilities that must be mitigated to be able to take advantage of the opportunities for recovering sustained and quality growth. These include high financing needs, both external and fiscal, high debt levels with respect to production, and growing social pressures which have undermined the political capital needed to make headway in the agenda of pending reforms.

A significant problem that most Andean countries will have to face is that of fiscal imbalance. In almost all countries there are strong pressures to increase public spending to meet growing social demands, but these are restricted by at least one of the following factors: high debt levels, sizeable fiscal deficits, high amortization payments, volatile tax and non-tax incomes, mandatory public expenditure rigidities and inadequate budgetary institutions. In this context, fiscal reform will be one of the political economy priorities that almost all countries will have to face.

The challenge for 2004 will be to increase competitiveness in the Andean countries with the object of improving macroeconomic efficiency, setting the stage for sustainable and high quality growth. Furthermore, enhancing governance and improving the social situation of the region's population should be among the priorities in the agenda. In this context, the synergy between public and private sectors of the region's countries is essential to improving the conditions of productive private economic activities, in particular those directed towards the export of non traditional goods.

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## **International environment**

The recent recovery of the United States economy and its positive growth prospects for 2004, are good news for the countries of Latin America, whose exports are largely directed at the US market. On the other hand, Europe continues to lag as a result of strength of the Euro, which has contributed to the slowdown of its exports. Furthermore, some members of the European Union, especially Germany and France, will be restricted in their fiscal policies due to the targets imposed by the Stability and Growth Pact. In the Asian region we have witnessed increased vigor in the Japanese economy, thanks to consumption and private investment growth and to an increase in exports towards East Asia, in particular China, which has experienced accelerated growth in recent years.

Various microeconomic factors are behind the economic recovery in the United States. On the one hand, productivity growth and better financial results in major corporations have improved market performance. On the other hand, tax cuts promoted by the Bush administration have produced higher investment levels. In spite of persistent high unemployment in the United States labor market and the uncertainty resulting from the post-war in Iraq, consumer confidence has improved during recent months. Nonetheless, geopolitical factors such as the situation in the Middle East, the threat of terrorist attacks and the situation in Iraq continue to represent risk factors for the potential recovery of the United States economy.

Another factor that could complicate the recovery of the United States economy is the restriction imposed on monetary and fiscal policy by a large fiscal deficit and the upholding of negative real interest rates. The increase in expenditure, especially in defense, and the reduction in taxes have generated a significant fiscal deficit that is expected to persist in future years. Furthermore, the prospects for recovery in 2004 indicate that interest rates will probably begin to rise. Given the large current account deficit in the US balance of payments, the dollar is expected to continue devaluating with respect to other currencies.

With respect to commodity prices, there has been a substantial recovery in the prices of various products, although high volatility persists. The prices of various precious metals, such as gold and silver, have increased by approximately 20% in 2003. Furthermore, copper as well as some agricultural goods such as cereals and coffee have shown a recovery in their prices. In the case of oil, an important

product for Colombia, Ecuador and Venezuela, prices have stabilized at around \$30 a barrel for WTI crude in the aftermath of the war in Iraq, although the drop anticipated by most analysts hasn't taken place. For 2004 prices are expected to remain high due to increased demand, reduced exploration activities worldwide and continued instability in Iraq and the Middle East.

After four years in which foreign capital flows avoided the region, 2003 signaled the beginning of a return. The resolution of the political transition in Brazil, the recovery of the Argentine economy and continued low interest rates in industrial countries have brought investors back to the region, reducing country risk for most of the Latin American economies. In this context, and given the reduction in spreads, countries of the region should take advantage of the opportunity to meet part of their financing needs in 2004.

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### **Economic growth and employment**

After a GDP contraction of 1.2% in 2002, estimated growth for Latin America in 2003 is 1.5%, and prospects for 2004 are even more promising. Among the countries that stand out for their economic growth in 2003 are Peru, Colombia, Argentina and Chile, while instead Venezuela registered a negative growth; this year Brazil also suffered a slight negative decline. The factors behind this favorable performance were the improved international panorama, the return of capital flows to the region, strong exports and the recovery of domestic financial systems. However, in the Andean region preliminary results show a 0.9% fall in GDP, explained mainly by the 9.2% contraction suffered by Venezuela.

The Argentine economy has been an important force in the positive growth of the region in 2003, growing by 8.7%. This is due mainly to the macroeconomic stabilization that has taken place in Argentina. Nonetheless, several issues remain to be resolved, such as the reactivation of the financial sector, achieving and maintaining financial stability and solving the problem of public debt. Brazil also appears well on the road to a good 2004 after the slowdown in 2003. Economic policies implemented by President Lula together with the interest rate decline which is expected to fuel economic activity have brought a feeling of euphoria to domestic markets.

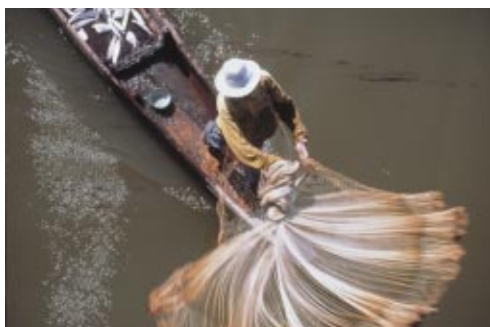
Mexico has continued to suffer the effect of the recession in the United States, and in spite of the recovery in the latter, the Mexican economy grew barely 1.3% in 2003. Nonetheless, the improved international panorama and the recovery of the United States economy have implied an increased push to the Mexican economy in 2004. As for Chile, its economy has not been able to recover the growth rates of the early nineties, mainly because of the fall in its terms of trade and the slowdown of its principal trading partners.

Despite the fiscal and political difficulties faced by Bolivia in 2003, it managed to grow by 2.3%, a result similar to that of 2002. This was due to continuing monetary, exchange rate and price stability, and dynamism in the export sector.

Colombia's performance was positive, with 3.6% growth in 2003 compared to 1.7% in 2002. The reasons for this growth acceleration were the improved expectations of both investors and consumers, macroeconomic stability, the reactivation of private credit and improved competitiveness. It is important to note that the effects of decreased Colombian exports to Venezuela because of the crisis and exchange rates controls in the latter were partially compensated by increased exports to the United States.

In the case of Ecuador, in 2003 the growth rate decreased to 2.8% after having registered 5.2% and 3.4% in 2001 and 2002 respectively. The causes of this reduced growth are tied in part to reduced production by PETROECUADOR, due to low investment and insufficient maintenance. Moreover, the increase in the real exchange rate produced a loss in competitiveness for the Ecuadorian economy. For 2004, greater dynamism is expected, thanks to increased private sector participation in the hydrocarbon sector.

In search of solutions to combat poverty, unemployment and inequality, the countries in the region are making profound changes to their development strategies.



Peru continues to perform positively in terms of economic growth. In fact, the Peruvian economy's growth in 2003 was 4%, the highest of the Andean Community countries. Macroeconomic stability and improved access to credit by the private sector have been the pillars of the high growth rates experienced in 2002 and 2003.

For the second consecutive year Venezuela closes the year in recession. After falling 8.9% in 2002, the Venezuelan economy contracted by 9.2% in 2003. Political instability, the reduction of oil and non-oil activity due in part to the strike at the beginning of the year, and the fall in investment and domestic demand are the principal causes of economic contraction in Venezuela. For 2004 a significant recovery of the economy is expected, due in part to a statistical effect and to the recovery of oil activity.

Low growth rates in Latin America have entailed continuing high rates of unemployment. In fact unemployment in 2003 is estimated at around 9.7%, although improved prospects for 2004 could imply a decrease in the number of unemployed in the region. In the Andean region unemployment rates are higher than the Latin American average, registering 12.4% in 2003. This is explained partly by continued high unemployment in Colombia and Venezuela.

### External sector

The beginning of the recovery in the world economy, and particularly in the United States, the main destination for Latin America's exports of goods and services, together with an improvement in terms of trade, determined a 8.3% increase in the region's exports in 2003. Furthermore, the modest economic recovery experienced by Latin America in 2003 contributed to a 3.8% increase in imports. These results permitted Latin America to close the year with a positive trade balance similar to that of 2002 and a current account surplus equal to 0.7% of GDP.

As mentioned above, in 2003 international capital started returning to Latin America, bringing about an improvement in the regions capital accounts. Foreign Direct Investment (FDI) towards Latin America went from 2.5% of GDP in 2002 to 2.8% of GDP in 2003. Meanwhile, private portfolio investment and other private capital flows began reversing the negative trend of recent years. Low interest rates worldwide and the positive performance of the Brazilian economy have lured back international investors looking for better returns on their capital. A more favorable current account coupled with the return of capital flows to the region produced an increase in the levels of Net International Reserves (NIR), both for Latin America as a whole and for the members of the Andean Community in particular. In fact Latin America's NIR grew from US\$145,151 million in 2002 to an estimated US\$180,574 million in 2003.

The Andean Region experienced growth in foreign sales of 5%, in spite of the contraction of Venezuelan exports. Among the reasons for the increased dynamism of the exports of Bolivia, Colombia, Ecuador and Peru have been the better commodity prices and the trade preferences granted through the ATPDEA agreement with the United States. Furthermore, imports grew as well by a strong 3.8% due mainly to the economic recovery of the region. This contributed to a surplus in the current account. The return of capital flows also benefited the Andean Community countries, improving capital accounts. In fact, NIR increased from US\$34,304 million to US\$43,797 million between 2002 and 2003.

### Public finance and debt

Latin America showed no change in the fiscal management of 2003. The Non Financial Public Sector (NFPS) maintained a deficit of 2.5% of GDP. The Andean Region registered a significant deterioration in fiscal accounts, with an increase in the NFPS deficit from 2.9% of GDP in 2002 to 3.8% of GDP in 2003. The

## 2003 Main indicators

	Bolivia	Colombia	Ecuador	Peru	Venezuela	Argentina	Brazil	Chile	Mexico
<b>Real Sector</b>									
GDP (current millions US\$)	7,823	81,800	26,844	60,993	97,000	133,000	495,100	72,643	634,335
GDP per capita (current US\$)	881	1,771	2,120	2,247	3,797	3,499	2,798	4,743	6,135
Real GDP Growth (%)	2.3	3.6	2.8	4.0	-9.2	8.7	-0.2	3.2	1.3
Saving (% of GDP)	12.6	17.3	23.9	18.5	14.0	13.5	19.2	20.6	19.0
Investment (% of GDP)	12.9	15.1	21.4	16.7	25.9	20.1	20.0	20.1	17.5
Unemployment Rate (% of total labor force)	9.7	14.7	9.8	7.8	15.0	14.5	10.9	7.4	3.2
Population (millions)	8.9	44.5	12.660	27.1	26.1	38.2	177.0	15.3	103.4
<b>External Sector</b>									
Exports FOB (millions US\$)	1,573	13,010	6,004	8,954	25,750	29,376	73,084	20,955	165,300
Imports FOB (millions US\$)	1,613	13,022	6,098	8,244	10,707	13,813	48,259	17,903	171,100
Current Account (% of GDP)	0.3	-2.2	-2.5	-1.8	11.9	6.6	0.8	-0.5	-1.5
Foreign Direct Investment (% of GDP)	0.8	1.6	6.1	2.2	2.6	0.8	2.0	4.1	3.9
Total External Debt (% of GDP)	64.4	47.5	60.0	48.7	25.3	108.4	45.9	59.8	24.2
Net International Reserves (millions US\$)	892	10,884	1,161	10,194	20,666	14,119	49,296	15,979	57,383
<b>Fiscal Sector and Prices</b>									
Fiscal Balance NFPS (% of GDP) a/	-7.9	-3.1	1.7	-1.9	-6.7	0.4	-5.2	-1.8	-0.6
Primary Fiscal Balance (% of GDP)	-5.0	1.9	5.0	0.1	-1.0	2.3	4.3	-0.3	2.3
Inflation rate (end of period)	3.9	6.5	6.1	2.5	27.1	3.7	9.3	1.1	4.0
Nominal Exchange Rate (end-period)	7.8	2,778.0	25,000.0	3.47	1,600.0	2.93	2.89	602.9	11.23
Annual Depreciation (end-period)	4.5	-2.3	0.0	-1.2	14.2	-12.8	-18.1	-14.1	8.0
Real Effective Exchange Rate Index (1997=100)	106.7	145.2	95.6	110.7	84.4	96.6	239.0	89.3	104.3
<b>Banking Sector and Capital Markets</b>									
Banking Sector Total Assets (millions US\$) b/	4,627	28,688	6,666	17,056	23,019	10,467	269,122	162,483	164,518
Real Financial Return Rate c/	2.3	2.2	-0.6	6.3	-6.5	n.d.	7.6	0.0	2.1
Nominal Portfolio Growth (%)	-3.9	6.0	6.8	-4.5	10.9	-20.1	8.3	4.6	1.6
Non-performing Loans (% of Total Loans)	16.0	6.8	22.5	5.8	5.0	n.d.	5.3	1.7	4.6
Sovereign Bonds Spread	n.a	431	799	312	593	5739	463	24	199
<b>Social Indicators*</b>									
Poverty (% of population) d/	61.0	50.0	55.0	54.3	48.5	45.0	38.5	20.0	40.0
Illiteracy Rate e/	14.0	8.1	8.2	9.8	7.2	3.1	12.7	4.1	8.6
School enrollment, primary (% gross) f/	115.0	112.4	115.0	127.6	101.9	120.1	162.3	102.7	113.2
Mortality Infant Rate g/	77.0	23.0	30.0	39.0	22.0	19.0	36.0	12.0	29.0
Life Expectancy at Birth (years)	63	72	70	70	74	74	68	76	74

\* PRELIMINARY DATA

a/ Non financial Public Sector

b/ For Argentina data represent Credit to the Private Sector only

c/ Colombia and Venezuela: Domestic interest rate - inflation rate. Bolivia, Ecuador and Peru: Foreign currency interest rate + depreciation - inflation rate

d/ 2002 Data

e/ Percent of people ages 15 and above. 2001 data

f/ 2000 data except for Venezuela (1996)

g/ Under-5, per 1000 live births. 2001 data

Source: Central Banks, Official Sources and CAF estimates

countries with the greatest fiscal imbalances during the year were Bolivia, Brazil and Venezuela, while Argentina, Ecuador and Mexico experienced good results in their fiscal management.

Some problems present in various countries of the region and in particular in the Andean countries are high debt levels, significant deficits, amortization payments on public debt, revenues that are very sensitive to the economic cycles or to the prices of key primary products, controls on mandatory expenditures, and weak fiscal institutions. To this one must add worrying recent trends such as increasing levels of domestic debt, that is usually costly and short term.

In Argentina, the main fiscal challenge is the renegotiation of the public debt, which will be a long and complex process. In the case of Brazil, the government has complied with all the fiscal targets negotiated in the standby agreement with the International Monetary Fund (IMF). The advances in the tax and social security reforms, together with the fall in interest rates, forecast an improvement in the nominal balance and the stabilization of the debt to GDP ratio. In the case of Mexico, the government has maintained fiscal discipline in spite of the recession, resulting in a reduction in the NFPS deficit and an increase in the primary surplus as a percentage of GDP.

As for the Andean countries, the main problem in the Bolivian economy is clearly the large fiscal deficit, the adjustment of which is made difficult in the current political and social circumstances. Nonetheless, significant progress has been made within the consultative group and in negotiations with the IMF. In the case of Colombia there is concern for the medium term fiscal situation, given the rejection of the fiscal adjustment measures included in the Referendum, but President Uribe's government is looking for alternatives to achieve fiscal equilibrium and finance security and social investment expenses.

With a Ecuador was the only country with fiscal surplus, but the lack of access to international financing complicates the process of covering its high financing needs. Peru is experiencing a reduction in its fiscal deficit and low spreads, which allow for external financing at favorable conditions. The fiscal challenges for the Peruvian economy are increasing the tax base, managing fiscal pressures tied to the decentralization process and dealing with pension liabilities. Finally, Venezuela continues to face enormous financing needs and the rapid growth of the internal debt in recent years represents a risk for fiscal sustainability.

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## **Monetary, exchange rate and financial sector**

In 2003 the inflation rate in Latin America returned to one digit levels. In fact, the stabilization of the Argentine economy and the continuing low inflation rates in most of the region's economies contributed to the reduction of inflation from 11.8% in 2002 to 6.9% in 2003. As for the Andean Community, the variation of the Consumer Price Index (CPI) decreased from 9.8% in 2002 to 8.9% in 2003, notwithstanding continued two digit inflation rates in Venezuela. It is important to note that in most Latin American countries monetary policy has been prudent, and various nations have successfully implemented inflation targeting.

In 2003 Latin America achieved greater exchange rate stability, thanks mainly to the stabilization of the Brazilian and Argentinean currencies. Likewise, the return of capital flows to the region, especially during the second semester, contributed to the increased valuation of some Latin American currencies. Bolivia experienced the greatest devaluation, even though there was no major inflationary effect. In Venezuela, during most of 2003 capital controls were maintained due to political and economic difficulties faced by this country.

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## **Competitiveness**

Notwithstanding some progress, Latin America continues to lag behind in competitiveness. In the last Global Competitiveness Report (2003-2004) published by the World Economic Forum, the countries

of Latin America and the Caribbean ranked on average in 67th position among 102 countries, and 8 of them are among the 20 least competitive nations in the world. By contrast, the OECD countries ranked on average in 20th position, and the so-called Asian tigers in 11th position.

Latin America's lag is explained fundamentally by macroeconomic problems, such as the lack of efficient public spending in some countries. Similarly, competitiveness in the region is limited by the lack of absorption of new knowledge and technologies, especially by productive sectors, and by the weakness of public institutions and the private sector's lack of trust in them. According to these results, the medium term growth prospects are not overly favorable.

The most competitive country in the region continues to be Chile, ranking 28th among the 102 countries of the sample. It is worth mentioning, however, that El Salvador, Mexico and Colombia advanced 14, 7 and 2 positions respectively in the global ranking. In the same way, the countries that recorded important drops in their positions were Uruguay, which dropped 8 places compared to the previous year, and Brazil, Jamaica and Nicaragua, that dropped 7, 6 and 5 positions respectively.

The Andean countries ranked on average 72nd. Peru stands out as the most competitive of the Andean countries, ranking 57th, followed by Colombia that ranked 63rd. Venezuela, Bolivia and Ecuador ranked 82nd, 85th and 86th respectively, placing themselves among the 20 least competitive countries of the sample. Using a comparable sample and comparing it with the previous year's report, Colombia gained two positions, Peru and Ecuador one, Bolivia remained constant and Venezuela dropped a position.

Macroeconomic stability is the challenge for all the countries of the Andean region. As for technological development, Bolivia and Peru face the greatest challenges, while Venezuela faces the greatest challenges with respect to public institutions.

In 2003 regional exports experienced a 8.3% increase, and the prices for many products rose as well, though volatility persists.



## Poverty and social institutions

The beginning of the century has been characterized by the stagnation of the process of overcoming poverty in the region. According to numbers and projections of the Economic Commission for Latin America and the Caribbean (ECLAC), in 2003 there were 20 million poorer Latin Americans than in 2002. This situation is associated with the region's meager economic growth performance in recent years that, among other things, has generated a 2% increase in unemployment since 1997, reaching 10.7% of the population. It is not surprising that the region registers an increase in poverty. 227 million people living below the poverty line in 2003, equivalent to 44% of the population, is evidence of the magnitude of the problem. In particular, the case of greatest deterioration is Argentina, where poverty doubled between 1999 and 2002, followed by Bolivia where it increased 1.1 basis points. In the rest of the countries the proportion of poor people remained the same or fell during the same period, but never by more than one percentage point.

Nonetheless, the region has achieved significant progress in the areas of education and health. With respect to education, according to indicators of the World Bank, Latin America as a whole and one of its regional sub-groups, the Andean countries, have achieved a reduction in illiteracy rates. In fact, the illiteracy rate has fallen more than two percentage points in the last five years to 10.8% of the population. The case of Bolivia is particularly noteworthy, with a fall in the illiteracy rate of almost four percentage points. On the other hand, net primary school enrollment indicators (Latin America averages), also obtained from the World Bank, reached 96.87% in 2000, noticeably higher than the 90.42% registered in 1993.

To evaluate the situation of the health sector, it is important to review the World Bank infant mortality and life expectancy indicators. Life expectancy in Latin America in 2001 was 70.6 years, a significant change with respect to the mid nineties (a year more in average). In the case of the under-5 mortal-

ity rate, the average for Latin America in 2001 fell almost 10 percentage points with respect to 1995, to 34.4%. The cases of Bolivia and Peru stand out, where during the same period the indicators went from 97% to 77% and from 59% to 39%, respectively.

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### **Institutions and governance**

In recent years Latin America has been characterized by the weakness of its public institutions and its feeble governance. This situation has had a negative impact on the economic development of the region, and the strengthening of its institutions has become an essential challenge. In the last Global Competitiveness Report, Latin American countries on average ranked in 67th position among 102 countries in the public institutions sub-index. In relative terms, this means that 64% of the countries considered in the report have more solid institutions and, therefore, better governance. Likewise, 56% of countries have greater control over corruption, and 71% stronger rule of law.

The Andean region presents indices below the Latin American average. According to results presented by the World Economic Forum, the average position of these countries is 72, reflecting a significant relative decline in recent years. The lack of judicial independence and weak intellectual property rights protection are the main concerns. Furthermore, favoritism of public officers in political decisions and the lack of transparency in the formulation of public policy are important challenges for the region. The perception of high levels of corruption, organized crime, high levels of criminality and limited effectiveness of legislators are some of the problems that affect the Andean countries.

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### **Regional integration**

The slowdown of the world economy and the difficulties encountered by many Latin American countries in 2002 caused a strong decline in regional trade in 2003, with intra-regional trade hit particularly hard. Nonetheless, the process of recovery that had begun during the second half of 2002 continued in 2003, implying not only a recuperation of exports but also a renewed impulse to regional integration processes. This recuperation is significant because it occurred in the face of persistent weakness in the global economy.

The slowing down of the world economy in 2002 caused a weakening of the integration processes in the region, in particular in MERCOSUR, due to the negative situation in Argentina, and in the Andean Community, because of the crisis in Venezuela. Nevertheless, the recovery that began in 2003 has been mirrored in the integration processes of the region, that have dedicated themselves to their programs and objectives with renewed vigor.

The Andean Community approved a Common External Tariff for all five countries and continues its efforts at macroeconomic coordination, fundamental conditions to achieve the objective of a common market by 2005. MERCOSUR continues its process of institutional strengthening, while Central America has witnessed an increase in the number of initiatives under the Puebla-Panama Plan.

Latin America recognizes the importance of multinational negotiations in achieving greater presence in global trade, and therefore participates actively in the Doha Round negotiations. This Round is of critical importance for developing countries given the themes in questions: liberalization of trade in agriculture and services, the elimination of subsidies and other forms of indirect protectionism, and the possibility of including other matters of domestic policy tied to trade, such as the environment and competition policies. Nonetheless, the delays often associated with such large scale negotiations and the disappointment after the failure in Cancun have resulted in Latin American countries dedicating more energies to their regional integration processes.

Presently, integration in the region is moving along three different, non exclusive routes: hemispheric, subregional and bilateral integration. At the hemispheric level, there is the goal of achieving the Free Trade Area of the Americas (FTAA) which, if accomplished, would become the world's largest free trade area. The FTAA has recently encountered difficulties for reasons similar to those met by the Doha negotiations: different parties assuming extreme positions and disagreements over which topics should be included in the negotiations. While on the one hand the United States wanted to include liberalization of service trade, government procurement and greater protection for intellectual property and investment, on the other Brazil proposed including agricultural subsidies and antidumping. The goal of 2005 looks difficult without some sort of compromise. The agreement reached in the Miami Summit at the end of November entails continuing with a flexible FTAA (FTAA light). Countries would have the possibility of excluding some areas from the negotiations, assuming different commitment levels. This less ambitious plan would imply that the most contentious issues be excluded from a final agreement.

The response to the slowdown of the process of hemispheric integration has been a greater interest in subregional integration and in bilateral agreements, especially those with the United States. There have been important accomplishments in this area in 2003. In June the free trade agreement between Chile and the United States was signed, the first agreement of this type between the United States and a South American country. The CAFTA (Central American Free Trade Area) negotiations have moved along rapidly, notwithstanding recently encountered obstacles tied to the United States' attempt to include telecommunications, electricity and investment in the negotiations. In December the Free Trade Agreement was signed between the United States and four of the five Central American countries – Costa Rica for the time being remains outside the pact due to the lack of a compromise in the disputed sectors, although an agreement may be reached in the coming weeks. Faced with the reduced vision of the project of hemispheric integration that has emerged after the FTAA meeting in Miami, the United States have declared their intention to begin bilateral negotiations with Bolivia, Colombia, Ecuador, Peru, Panama and the Dominican Republic.

An important accomplishment has been the free trade agreement negotiated

between the Andean Community and MERCOSUR. Peru and MERCOSUR already have had an agreement of this type since August, where Peru joined MERCOSUR as an associate member. After many obstacles, and delays and negotiations that have lasted various years, the agreement was signed in December of this year. This alliance, covering almost all of South America, will allow not only increased trade and the potential for greater economic cooperation, but also greater negotiating power of the two blocks with third parties.

The Andean Community is also advancing in its negotia-

tions with the European Union, having achieved an agreement of political dialogue and economic cooperation signed this December. This achievement is important given that Chile and Mexico already have free trade agreements with the European Union, while MERCOSUR is at an advanced phase of negotiations for a free trade agreement between the two regions. Furthermore, Europe could represent a significant export market for Latin America, although most countries in the region, with the exception of those belonging to MERCOSUR, have not been taking advantage of the preferences granted under the Generalized System of Preferences of the European Union.



Mercosur Summit Meeting in Montevideo, Uruguay, DEC/16/03. Chief executives of the integration group's member countries, accompanied by their special guests, including CAF's executive president, Enrique García.





INFRASTRUCTURE AND THE SERVICES RELATED to it may be regarded as part of a nation's capital stock, combining with other factors of production to help achieve significant increases in productivity. Infrastructure and its associated services have a direct impact on the competitiveness of a country or region, and upon the rate of economic and socially sustainable growth – and thereby upon poverty alleviation. Countries, or parts thereof, which are land-locked, and lacking in adequate communications infrastructure, tend to be less developed and less internationally competitive than better connected coastal states and regions.

Good infrastructure reduces considerably the cost of manufacturing, and plays a key part in helping to modernize and diversify a country's production. Few economies exist, if any, with strong manufacturing sectors but inadequate infrastructure and logistics. Besides, even the capacity to competitively exploit and export traditional raw materials is contingent upon infrastructure.

Access to reliable and low-cost energy translates into substantial increases in the availability of capital and the productivity of labor. Communications and electronic data processing have a decisive influence upon the timely supply of raw materials, the manufacturing processes, the marketing of products, the quality of services, and especially upon the efficient performance of the financial sector. All these elements have a direct impact upon competitiveness in modern manufacturing.

In short, to achieve the required level of competitiveness in the global markets it is imperative to ensure an optimal production process, but in addition, it is necessary to provide for its logistic network and supporting infrastructure.

### **Governments and the private sector become partners**

Throughout history, governments have acknowledged the relevance of sound infrastructure and related services to the achievement of high levels of production and competitiveness, and the state has played a key role in planning, designing, building, financing, and operating such infrastructure and services. Over time, new modalities were devised to adapt to specific needs and available resources, and to better fit the prevailing cultural, social, and political visions.

In the past ten years, governments in Europe, most notably in the United Kingdom, have made use of public-private partnerships (PPPs) as a means to ensure the long term availability of services such as those provided by roads, highways, potable water systems, schools, hospitals and prisons.

In Latin America, a PPP is the contractual agreement between an agency of government (be it central, provincial or municipal) and a private corporation, whereby the government obtains the private firm's commitment to provide certain services for an agreed-upon period of time. Typically, the agreement provides for each side to contribute its relative strengths to the partnership, to supply part of the required resources, and to share in the risks as well as in the profits stemming from the joint effort. While providing services comparable to those traditionally requiring a government investment, the PPP uses the private sector's equity and borrowing capacity, thus freeing up public sector resources to pay for other government-sponsored economic and social programs.

With a PPP, the public sector sets the service standards (such as amounts and quality levels) and the private sector partner designs, builds, finances and undertakes to operate the works and installations for long term periods, often of up to 30 years. The private sector's investment is recovered either through final user fees, or the government's periodic payments, or by a combination thereof. Contrary to privatizations, PPPs keep ownership of the assets in public sector hands.

## Water for all

There is worldwide recognition of the fact that the supply of good quality water and adequate sanitary treatment are key factors in the effort to reduce poverty and to improve the quality of life of the population. The countries of the World have set as a goal for the start of the millennium the reduction by half of the deficit of access to water and sanitation by year 2015, which implies supplying drinking water to 80 million people and basic sanitation to 120 million, and requires aggregate investments of about \$150 billion. Determining whether the services are to be supplied by the public or the private sector is less important than the need to ensure access to the required resources. Public policies must ensure the attainment of these goals, and CAF has been assisting the governments in their efforts.

The management of water resources is made more difficult by the very fact that water is a natural resource, essential to the survival of humans. As such, it is influenced by cultural and social perceptions that have made it the subject of heated public debates. Decisions related to this sector affect all levels of society, and are frequently influenced by political interests that fail to optimize investments from the technical, economic, financial and socio-environmental points of view.

Only 5% of current investment in basic waterworks has private sector involvement.

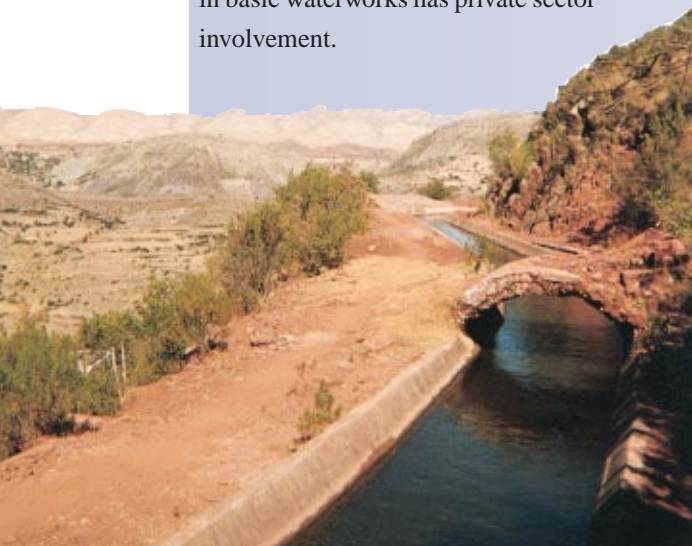
Experience in the region points to improvements attributable to the participation of private firms in the management of such systems, but more important than defining the source of funding or the nature of the companies involved, is ensuring the efficiency of these systems.

There is a number of different schemes for private sector participation, from concessions to mixed enterprises, management contracts, outsourcing of services, and more. Each country will need to search for the solutions that are best suited to its local conditions and objectives.

All the above schemes require proper regulatory frameworks, and institutions capable of applying them. Whatever the system chosen, it must respect the individual criteria of entities responsible for the formulation of general policies and guidance, and be accountable to the regulatory agencies responsible for overseeing specific areas such as service quality, rate structures and subsidies, performance indicators, and conflict resolution mechanisms. Last but not least, it will depend upon the capabilities of the service-providing enterprises.

With respect to the extraction of the water resource, it is important to develop criteria for its integrated use, by placing responsible basin authorities in charge of conservation, to preserve hydrological balances, and to ensure the availability of water for all users: drinking water, and water for irrigation, for industrial and commercial uses, for energy generation and for transport.

CAF is one source of financing for water projects in the Andean region, helping the countries to carry out projects to improve the access of people to water, and to carry out works for the re-use of treated water and to produce water for irrigation. CAF also lends support to improve regulatory frameworks and to promote decentralization and institutional strengthening.



While the need for improvement of infrastructure and related services is greater in underdeveloped countries than in the developed ones, available effective options in the style of PPPs are fewer. This is due to fundamental problems, such as the inadequate structure of legal systems, the inability of political institutions to institute major reforms or to sustain them over time, the lack of sophistication of capital mar-

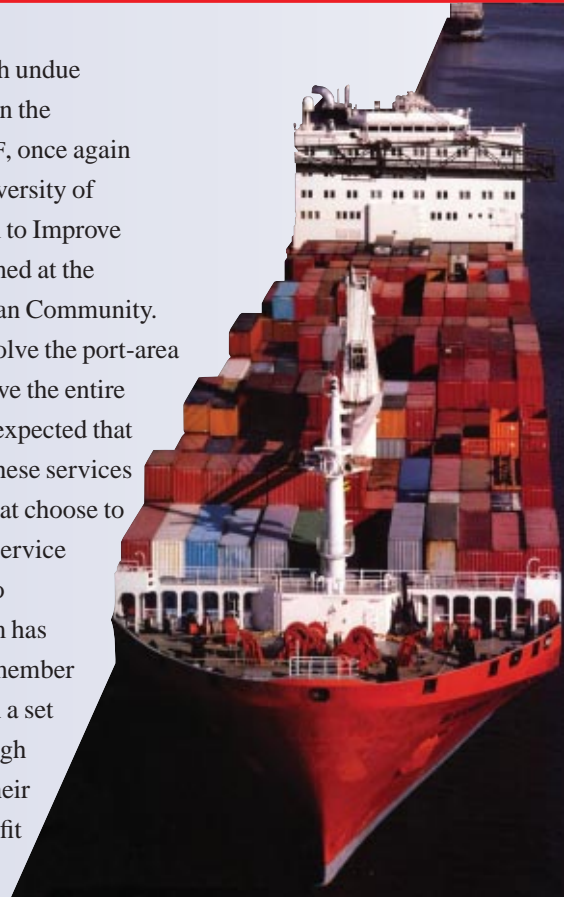
### **Andean Community: improved port services**

Almost all of South America's exports are shipped by ocean freighter, and more than half of intra-regional trade is transported by coastal shipping. This makes port efficiency an essential cog in the machinery of the region's international commerce. CAF, in alliance with the Polytechnic University of Valencia, Spain, completed a study of South American port facilities, identifying the many reforms and improvements already made to their installations and operations. At the same time, the study found significant variations between both expert and user ratings of different ports in the region. The ratings were based on four criteria: cost, speed, reliability and safety. In the study, Colombia's Port of Cartagena came out ahead.

The quality of port services depends on the performance of a logistical chain involving many agents: it is not enough to have efficient cargo dispatchers if, on the other hand, customs

inspectors delay operations with undue requirements. To aid progress in the development of this sector, CAF, once again allied with the Polytechnic University of Valencia, has started a Program to Improve the Quality of Port Services aimed at the principal five ports in the Andean Community.

The program seeks to involve the port-area communities, in order to improve the entire chain of logistic services. It is expected that implementation of reforms in these services would eventually allow ports that choose to do so to provide guarantees of service quality to their clients. It is also expected that, once the program has been fully implemented, CAN member countries will be equipped with a set of ports capable of providing high quality services in support of their productive sectors, for the benefit of the entire population.



kets, and the low credit ratings. It is here that multilateral institutions like CAF can play a significant role, with mechanisms to lower the risks involved in transactions. Indeed, as political and long-term commercial risks are mitigated, commercial sources of financing become more interested to participate in projects that are otherwise economically sound, well structured, and have sufficient government support.

South America's recent experiences with private participations show mixed results. Successful cases contrast with those in which actions by either the private firm involved or the concerned government have generated uncertainty for ventures of this kind. Be it the result of suddenly modified regulatory frameworks, or the consequence of weaknesses in project design and execution, many private firms suffered unforeseen and significant losses. Such experiences have led to a revision of the framework for private participation in the supply of basic services, more particularly in the countries that had advanced the most in terms of approving privatizations and concessions.

Thus, in an environment of diminished financial capacity and growing restrictions of access to credit for the public sector in the countries of South America, it has also become more difficult to promote private participation in their infrastructure projects.

Chile had the first set of successful experiences with PPPs, thus far involving mostly highways, ports and airports, but with future plans for penitentiary facilities and hydroelectric projects. Recently financed highway projects were supported by multilateral agency guarantees and risk insurance for related local bond issues, which resulted in enhanced risk ratings for the bonds, and facilitated their placement with local pension funds and insurance companies. Such guarantees of local bond issues

## Guayaquil's transformation

Political leadership, continuity of management and credibility are the protagonists of the transformation that has been taking place in Guayaquil over the past ten years. The citizens have elected and maintained a person able to generate and put in place a long-term master plan for the city's development which, consistent with the infrastructure in place, utilizes the city's economic potential and its natural access to the river, to seek to mitigate the principal problems of congestion, contamination and lack of security arising from decades of deficient planning and poor urban development.

The main Latin American cities have experienced tremendous growth over the last 60 years, as the countries have transformed their rural economies into more industrialized ones. This has led to increased concentration of population in a growing number of cities which share one common problem: inefficient urban planning and development. Consequently, the major demographic shifts that took place were not accompanied by institutional or economic adjustments to satisfy the growing demands for infrastructure arising from the tidal migration to the cities.

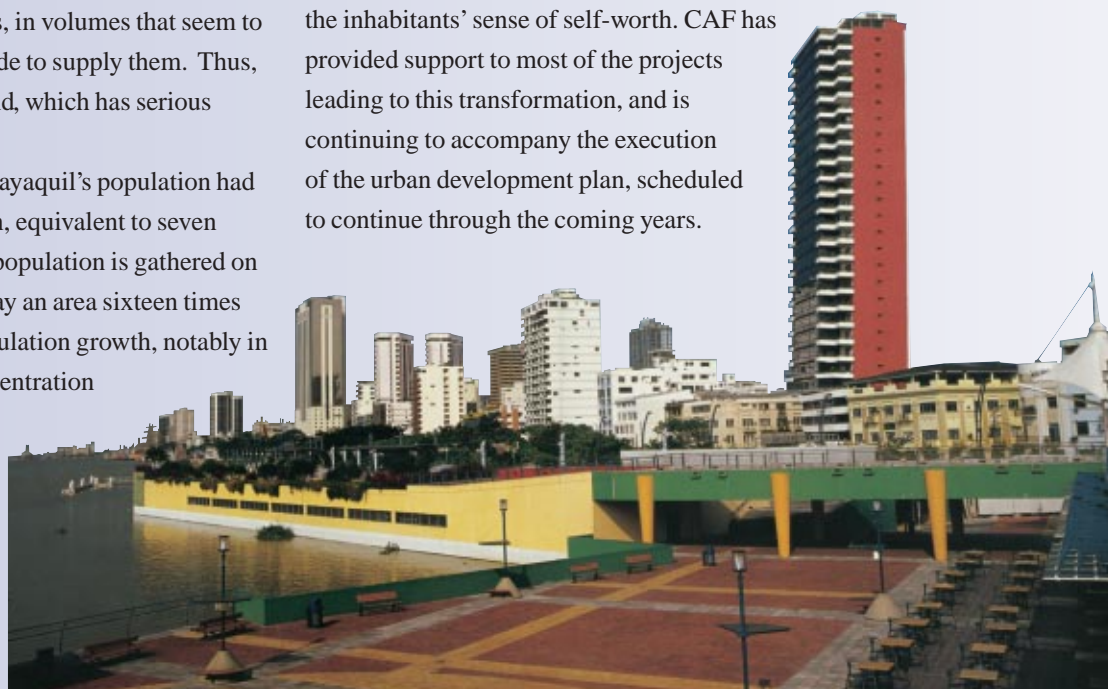
About 75% of Latin America's population (389 million people) lives in urban centers. 30% lives in cities of one million or more inhabitants. While their migration has allowed many people access to the benefits of concentration and to the larger scale of urban life, it also generates demands for the construction and financing of infrastructure and related services, in volumes that seem to exceed consistently all efforts made to supply them. Thus, investments lag behind the demand, which has serious consequences.

By the end of year 2000, Guayaquil's population had surpassed the figure of 2.1 million, equivalent to seven times the number for 1950. This population is gathered on about 18,000 hectares, that is to say an area sixteen times the city's size in 1959. Rapid population growth, notably in the 90's, caused heavy urban concentration unbridled by either planning or zoning, resulting in a profusion of sub-standard dwellings within uncontrolled areas lacking in basic services, all of it leading to the uneven expansion

of the city's network of streets and roads.

Guayaquil's local authority, with the financial backing of the Central Government, issued a long-term urban development plan as a means to overcome the problems resulting from decades of anarchical expansion. The most significant projects implemented to date – a combination of strategic works and credibility-building initiatives – are the following: widening and lengthening of the avenues that make up the city's main circuit; the building of a 2 Km corridor for popular entertainment and commercial activity alongside the river in downtown Guayas, named Malecón 2000; construction of two tunnels through Santa Ana hill, which had previously constituted a barrier that split the city in two; rehabilitation of the slum area on Santa Ana hill, transforming it into a picturesque urban zone for the population, equipped with galleries, cafes, night time entertainment, parks and security services, turning it into a tourist attraction for visitors to the city, and a mass-transit system in the style of TransMillennium, currently under construction. Part of the latter project is aimed at reclaiming the Estero Salado area, an ocean spur into the city which floods 3,750 hectares, used in years past as a recreational pool, but more recently turned into the repository of sewerage from parts of the city, to the detriment of the local environment and public health.

The above-described set of strategically selected projects has produced an impressive transformation of the city, contributing importantly to enhancing the inhabitants' sense of self-worth. CAF has provided support to most of the projects leading to this transformation, and is continuing to accompany the execution of the urban development plan, scheduled to continue through the coming years.



are a sound instrument to assist in the financing of infrastructure projects, whose stream of income is denominated in local currency.

The Chilean experience sets a precedent for the financing of infrastructure projects in other South American countries. Yet it must be noted that Chile, with its “A” sovereign credit rating, is favored by institutional lenders and investors. Other countries in the region, on the other hand, must strive to improve the transparency of their legal and judicial systems to enhance their local capital markets, and more generally to seek to better their country-risk rating, in order to succeed in the development of partnerships with the private sector for the financing of public service infrastructure projects. CAF is extending support to improve the countries’ institutional and regulatory environment pertaining to PPPs and similar schemes, as well as providing loans for the projects to be undertaken under such schemes.

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### **Infrastructure and continental integration**

The advance toward globalization is leading countries to join with one another in large blocks that promote integration and trade throughout the world. Such progress toward convergence makes it imperative for South America to adopt mechanisms to enable it to function as an integrated whole. Infrastructure is an essential element to foster regional integration, by linking countries together, creating networks for transportation and telecommunication, and erecting power grids to take advantage of the region’s energy resources.

Certain geographic characteristics make it a challenge to link together the elements of South America’s transportation and communications grids, and to connect them to the great markets within and outside the region. Indeed, South America occupies a very large area, located at some considerable distance from the world’s most important consumer markets. Moreover, the region’s principal cities are built far from each other, overall population density is low, and most urban concentrations are spread along the coastline.

Additionally, the region abounds in natural barriers to access, principally the Andes mountain range, the Amazonian Jungle, and the large number of rivers and swamps criss-crossing much of its territory. The region’s diverse topography gives rise to climatic and geological phenomena that make it especially vulnerable to natural disasters, in turn capable of producing severe and long-lasting disruptions in the normal functioning of the affected societies. Finally, most of the countries in the region face serious financial constraints that impose delays upon the construction of key elements of the region’s infrastructure systems.

The lack of adequate infrastructure to meet the challenges of the region’s geo-physical makeup makes it harder to add new human settlements to the existing ones, and to transport raw materials and finished products between domestic production and consumption centers, as well as between local producers and consumers and their foreign markets and suppliers. Consequently, the population centers are less-than-optimally distributed and connected throughout the region, adding to the cost of doing business, and making the region less competitive than those equipped with better infrastructure. In addition, there are fewer opportunities for developing new business ventures than would be available with better regional infrastructure. The latter further detracts from the region’s competitiveness by reducing the volume of aggregate economic activity, and by missing out on synergies that could be generated between a larger number and wider variety of businesses.

The view of infrastructure as a key element for the economic and social development of South America stems from the perspective that synergies from combined improvements in transportation, energy and telecommunications can impel the region to bridge its geographic barriers, to link its markets, and to promote new economic opportunities, within a set of increasingly harmonized and converg-

## **TransMillennium: a sustainable model for urban mass transport**

In 1999, the city of Bogotá began to build a new mass transit system relying on a revolutionary approach designed specifically to resolve the problem of high traffic congestion and collapse in cities that experience rapid growth. The new system was similar to that developed for the Brazilian city of Curitiba, involving the use of articulated buses moving along an exclusive route, and thereby avoiding most of the city's traffic, producing less contamination, and reducing travel time considerably. The buses only stop at designated stations that double-up as outlets for ticket sales, and where up to 100 passengers can get off and on each bus in just a few seconds.

The project was named TransMillennium. Organized as a mixed, public-private corporation, aimed at producing benefits for the public at large as well as for the investors, it has already shown many tangible results, such as the dramatic improvement in the average speed of transportation within the city; the rapidly growing masses of satisfied users (now reaching upwards of 700,000 per day); a city that is cleaner and better organized than before; and enhanced real estate valuation and increasingly dynamic activity along the system's area of influence. CAF provided support to the Office of the Mayor of Bogotá to assist in the establishment of the first routes, and is continuing to help expand the system elsewhere in Colombia, and to other Latin American cities as well.

The project originated under the initiative of Bogotá's municipal government in October of 1999, with the creation of Third Millennium Transportation Company, Inc. (or TransMillennium.) The enterprise is set up to plan, build and operate an automotive mass transit system for passengers that responds to the needs for modernization. Conceived and promoted by the Mayor's Office, the system was first put into service in December of 2000, following the firm's success in managing in record time the completion of the design, the building of required infrastructure, the replacement of thousands of buses which had been servicing the routes, as well as attracting the private companies to operate it.

TransMillennium has radically changed the transportation industry, proving itself to be a system under which all parties can benefit, including the displaced local transporters who were welcome to take part in bidding for new service contracts, as a way to ensure the long-term survival of their respective enterprises. Bogotá's experience shows the system to have had a significant beneficial effect upon the economy in general, and particularly on the quality of life of its citizens. Individual users are saving on average more than 220 hours a year, as 10% employed their private cars to go to work, and it is expected that by 2015 the system will transport 80% of passenger traffic in Bogotá. The system has also become an axis for business and economic reactivation in depressed areas of the city, a mechanism to promote the generation of employment of many kinds, and an instrument of social aid.

Among the system's most positive effects have been the significant reduction in traffic congestion and the increase in average speed of transportation, in turn leading to a considerable reduction in toxic emanations from automobile vehicles. The latter aspect has made the project a clear candidate to benefit from the Latin American Carbon Program (PLAC), that CAF has been supporting, and which is based upon the Kyoto Protocol's Clean Development Mechanism.



ing regulatory frameworks. A more integrated region will advance more efficiently to overcome the obstacles to its development. Furthermore, given the disparity in country sizes in the region, South America's cohesive stance can bring commercial and financial advantages, and a better positioning in the negotiation of international agreements than what could be achieved by the countries acting independently.

### **Plan Puebla-Panama**

CAF has accompanied this integration initiative from its outset, by participating in the Inter-Institutional Technical Group established by the presidents of Meso-America to develop projects and programs within the plan's framework. CAF has also provided non-reimbursable technical cooperation in support of strategic planning and pre-investment studies for programs and projects eligible for the Corporation's financing in member countries involved in the Puebla-Panama effort. In addition, CAF is exploring opportunities for joint project financing with the Central American Bank for Economic Integration (CABEI) in countries such as Costa Rica, which belongs to both multilateral organizations.

Among the Plan's more notable achievements in the realm of regional integration have been the innovations in financing schemes and progress in institutional development, and regulatory frameworks pertaining to the Meso-American electric power interconnection network. The latter encompasses Central America's Interconnected System (SIEPAC),

its link with Mexico, and the so-called Ring of Friendship, joining Costa Rica and Panama.

A Memorandum of Understanding has served to define the path and common technical characteristics for the region's network of integration highways, while securing most of the financing required for highway construction in countries that form part of the Plan. Progress was also noted in the negotiation of agreements to build a fiber-optics line to join together the region's telecommunications systems.

The Plan's progress has been marked by attention to social needs and by efforts to strengthen human capital and sustainable development, as reflected in the memoranda of understanding for prevention of natural disasters and for rural development, which were signed in 2003.

There is no doubt that the integration of Meso-America represents a powerful instrument for social and economic development, that also helps the countries involved to improve their standing in the global marketplace.

Besides improving infrastructure per-se, there are a number of institutional and regulatory steps that must be taken to improve the flow of traffic between the countries in the region and make exports more competitive, such as lessening existing obstacles to traffic and improving operations at border crossings. CAF has been fostering the adoption of such steps, as part of its programs to promote appropriate policies for the development of borderline areas. Some of CAF's efforts are aimed at the establishment of logistical zones to provide border services that meet the needs of shipping companies. These efforts have helped to attract firms engaged in providing packing, assembly, food and fueling services, and other similar commercial activities that can be most advantageously located near border crossings.

### **The IIRSA Initiative**

The Initiative for the Integration of South America's Regional Infrastructure (known by its Spanish acronym, IIRSA) is the countries' principal instrument for promoting regional economic and physical integration towards sustainable and highly competitive development, including the search for mechanisms that can overcome the obstacles set by geography and isolation. IIRSA seeks to generate a strategic vision of infrastructure development in South America that can be shared by country authorities and the society at large; a network of interlocked infrastructure authorities that aims for consensus; and the accelerated selection, execution and financing of the projects deemed to have the greatest impact upon physical and economic integration.



## Integration projects financed by CAF



This map was commissioned by CAF solely to illustrate certain points highlighted in the report. Consequently, its use of markers such as borders, colors and designations on the map, neither reflects its opinion on the status of any given areas, nor seeks to determine the location of actual political borders.

Under IIRSA, the South American region has been organized into ten integration and development axes, within which there is ongoing promotion for building an adequate transportation infrastructure, as well as electric power and telecommunications interconnections, designed with compatible technical standards and operating reliably, as needed to link markets and regions that show promising potential for growth. From a continental perspective, the advantages to be gained from integration in terms of efficiency, market expansion and attraction of private investment are high enough to justify in many cases the building of the infrastructure works needed for such integration to occur.

Presently, eight of these axes have business plans, identifying their principal current and potential productive activities, their physical bottlenecks, and the obstacles that need to be overcome in order to achieve their potential, as well as the respective solutions. Some of the solutions proposed are procedural, regulatory or operational in nature; others consist of added infrastructure to fulfill the requirements of the respective strategic regional plan. The business plans are designed to be helpful not only for infrastructure investments but also for the overall integrated development endeavor, including efforts to link complementary economic activities, the establishment of institutions for the provision of logistics services, the effective participation of local communities through enterprises to supply raw materials and services, and the modernization of local governments. The Executive Technical Groups for the two remaining axes (South Andean axis and the Paraguay-Paraná Waterway axis) are scheduled to begin development-promotion operations next year.

The process being followed by the countries to identify integration projects involves a methodology that relies upon national priorities and perspectives, but also takes into account those of neighboring countries. As a result, the projects within each axis have been grouped according to the synergies and externalities among them, in such a way that their aggregate benefit is greater than the sum of their individual benefits. The groupings are by area, factoring-in project location, impact upon principal current and potential economic activities, and related environmental and social aspects. Key projects are identified within each group, as is the strategic role that they play.

Without question, the differences in regulatory systems constitute the greatest challenge to the integration of regional infrastructure, often more so even than physical obstacles and fiscal constraints. In light of this, IIRSA prepared studies to support progress towards pertinent regulatory and normative convergence, regulatory agencies' modernization, improved efficiency of related services, and private sector investment promotion, in a uniform manner across borders. These studies have allowed the development of diagnostics and action plans, some already under implementation, in the areas of information technology, energy markets, border crossings, and transportation by air, sea and multi-modal means.

Advances were achieved as well in identifying a variety of financing mechanisms for infrastructure projects, taking account of the countries' existing fiscal restrictions and difficult access to international capital markets that limit their project execution capability. Also included in IIRSA's studies are critically important aspects pertaining to the financing of transnational projects, the evaluation of financial and budgetary implications, the analysis of innovative financial mechanisms already in use, and strategies to be followed in seeking to finance priority projects that are attractive to the private sector, but in which the country-risk factor may play a limiting role.

IIRSA's institutional capacity can be seen to be growing, turning it into a process that is solid, continuous and of high importance to the participating countries. Worthy of special mention is the good work performed by its national coordinators regarding the organization of the meetings held in each of the axes, and of the national technical gatherings in all twelve countries in the region. The coordinators' efforts helped to ensure the proper flow of information, and facilitated inter-sectoral contacts within each governmental structure.

**Integration project financed by CAF**
**In US\$ Millions**

Project	CAF Loan	Total Cost	Country	Integration Hub
Pre-investment for the improvement of access to Huemules Border Crossing and other studies	6.5	6.5	Argentina	Andino del Sur, Capricornio y Mercosur – Chile
Paso de Los Libres – Uruguiana border center modernization and enhancement	4.0	4.0	Argentina	Mercosur – Chile
RN7 Laguna La Picasa new alignment construction	10.0	10.0	Argentina	Mercosur – Chile
RN145 Paso Pehuenche – Bardas Blancas – Chilean border road paving	26.7	38.1	Argentina	Mercosur – Chile y Andino del Sur
RN 81 paving, RN 16, 86 and 95 rehabilitation, and Paso de Jama access road paving	90.2	126.0	Argentina	Capricornio
RN 40 Malargüe – Barrancas road paving	11,6	16.6	Argentina	Mercosur – Chile
Jujuy – La Quiaca Railroad rehabilitation and Laguna La Picasa new railroad alignment pre-investment	1.0	1.0	Argentina	Capricornio y Mercosur – Chile
Camargo – El Puente road paving and bridge program	40.0	57.1	Bolivia	Interoceanico Central
Bolivia – Argentina integration corridor consolidation	74.8	200.0	Bolivia	Capricornio
Bolivia – Chile integration corridor consolidation	12.0	17.0	Bolivia	Interoceanico Central
Santa Cruz – Puerto Suarez integration corridor construction	100.0	350.0	Bolivia	Interoceanico Central
TRANSREDES investment plan	88.0	220.0	Bolivia	Interoceanico Central
Bolivia – Peru integration corridor consolidation	120.0	544.0	Bolivia - Peru	Interoceanico Central
Venezuela – Brazil electric interconnection	86.0	222.3	Brazil	Escudo Guayanes
Venezuela - Brazil road interconnection	86.0	168.0	Brazil	Escudo Guayanes
State of Rondonia integration road program	35,0	50.0	Brazil	Peru – Brazil – Bolivia
Bolivia - Brazil gas pipeline	215.0	2.055.0	Brazil - Bolivia	Interoceanico Central
Quito – Bogota – Caracas integration road corridor	75.0	110.0	Colombia	Andino
Baeza – Tena road	25.0	35.0	Ecuador	Andino
Julio Andrade – Santa Barbara – La Bonita road	7.3	10.6	Ecuador	Amazonas
Puyo – Macas road	25.0	25.0	Ecuador	Andino
Sucua – Bella Union – Limon – Plan de Milagro – Gualaquiza road	32.3	48.5	Ecuador	Andino
Tandapi – Aloag road	26.3	43.8	Ecuador	Amazonas
Vilcabamba – Bella Vista road	14.5	22.0	Ecuador	Andino
Southern road corridor	70.0	100.0	Ecuador	Andino
Pre-investment technical, institutional and financial studies	0.9	1.5	The 5 countries	Hidrovia Paraguay – Parana
Paraguay – Bolivia integration road corridor	60.0	182.6	Paraguay	Interoceanico Central
Chiclayo – Chongoyape road	10.5	15.0	Peru	Amazonas
Rioja – Tarapoto road	50.0	108.0	Peru	Amazonas
Olmos – Corral Quemado road improvements	0.6	1.0	Peru	Amazonas
Tingo Maria – Aguaytia – Pucallpa road rehabilitation	10.1	13.6	Peru	Amazonas
Road network “Megaconcession”	25.0	135.0	Uruguay	Mercosur – Chile
Caracas – Tuy Medio railroad completion	100.0	662.4	Venezuela	Andino
<b>Total:</b>	<b>1,539.3</b>	<b>5,638.8</b>		

Following the work described in the preceding paragraphs, many of IIRSA's actions have become part of the countries' internal processes. In certain countries the Initiative has been particularly effective in promoting exchanges with government authorities and with the private sector alike.

As a measure of CAF's support for infrastructure development and integration in South America, to date the Corporation has supported a total of 33 integration studies and projects, in the amount of \$5,638.8 million, of which \$1,540 million have come from direct CAF financing, as detailed in the table on page 28.

### **Bolivia's telecommunications cooperatives: champions of service expansion in times of market competition.**

Fifteen regional cooperatives engaged in providing basic telephone services since the 60's have played a surprising role in the development and transformation of Bolivia's telecommunications sector. Born in times of restrictions against private sector participation in the field, the cooperatives became a bridge to allow such participation and later, with the opening that came in the 90's, they turned themselves into modern and competitive private firms. CAF has supported these enterprises from their local cooperative origins, through their transformation into competitive players at the national level.

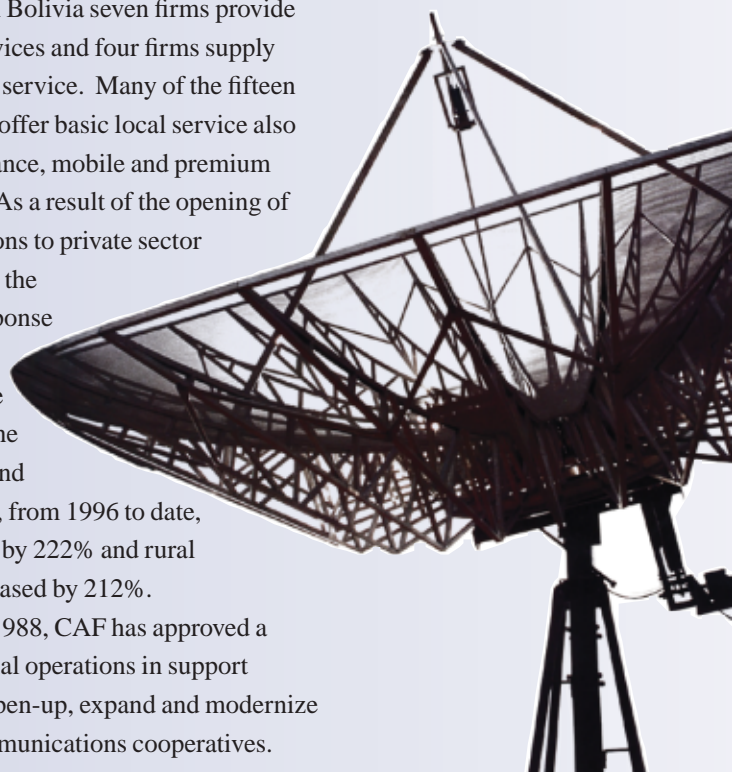
Bolivia's telecommunications began with the installation of the first telegraph in 1861 between the cities of Antofagasta and Caracoles. Almost a century later, in the 1950's, the government created the National Telecommunications Enterprise (ENTEL) to provide long distance and international services, as well as local service in some secondary cities. Most of the remaining local service was in the hands of municipal companies linked to ENTEL's network. Exceptionally, the local telephone service in Santa Cruz was started in 1960 as a cooperative with its users' financial participation.

In the 80's the government encouraged the municipal companies to convert into cooperatives, incorporating their respective

assets. Fifteen cooperatives were organized in this manner. In the 90's, the restrictions upon private sector participation were lifted, and telecommunications were thereby opened to free competition. Faced with this challenge, the largest cooperatives began to reorganize themselves legally and operationally, at the same time diversifying their services and their area coverage to take advantage of the opportunity and protect their market share.

Currently in Bolivia seven firms provide long distance services and four firms supply mobile telephone service. Many of the fifteen cooperatives that offer basic local service also provide long distance, mobile and premium services as well. As a result of the opening of telecommunications to private sector participation, and the cooperatives' response to it, there has been considerable improvement in the volume, service and coverage. Indeed, from 1996 to date, tele-density grew by 222% and rural connections increased by 212%.

Starting in 1988, CAF has approved a number of financial operations in support of the efforts to open-up, expand and modernize Bolivia's telecommunications cooperatives.



### **Andean countries advance towards the integration of their electric power systems**

The effort to integrate the South American electric power markets received a recent boost with the adoption of Decision 536 by the Andean Community in December 2002. The Decision, which sets the basis for the creation of an integrated market for energy in the Andean countries, has found in IIRSA's institutional framework a valuable support for the preparation of the required agreements. Furthermore, a Colombian public company has found ways to identify opportunities in this new market, carrying out corresponding investments within the country and beyond.

Barely a few months after the start of the interconnection between Pasto, in Colombia, and Quito, in Ecuador, some amazing results can already be seen. For example, the cost of the transmission line was recovered in the first four months of operation from savings generated by the interconnection. Between March and July 2003 - the interconnection's first months of operation - Ecuador and Colombia benefited to the tune of \$28 million and \$18.2 million respectively, as a result of lower energy prices and increased utilization of installed generation capacity. It is worth noting that, without the exports made possible by the interconnection, low demand requirements for electricity would have made it necessary to spill large amounts of the water accumulated by Paute, Ecuador's principal reservoir.

The improved schedule of power generation and transfers along the interconnected system of



Colombia and Ecuador has lowered the price of electricity in both countries. Thus, the top price per MWh of \$110 or more, prior to the interconnection, has dropped to under \$80. Energy imported from Colombia now represents 13% of energy consumption in Ecuador. With the two-way transfers made possible by the interconnection, Colombia's exports amounted to \$40.2 million, and Ecuador's to \$2.4 million. The successful completion of the Colombia-Ecuador interconnection has added momentum to other projects of the same type, such as the planned interconnections between Peru and Ecuador, and between Bolivia and Peru, as well as to the start of studies for the interconnection between South and Central America.

Transmission lines for Bolivia's Valle de Zongo hydroelectric generation system, which transport approximately 80% of the electricity supplied to La Paz.

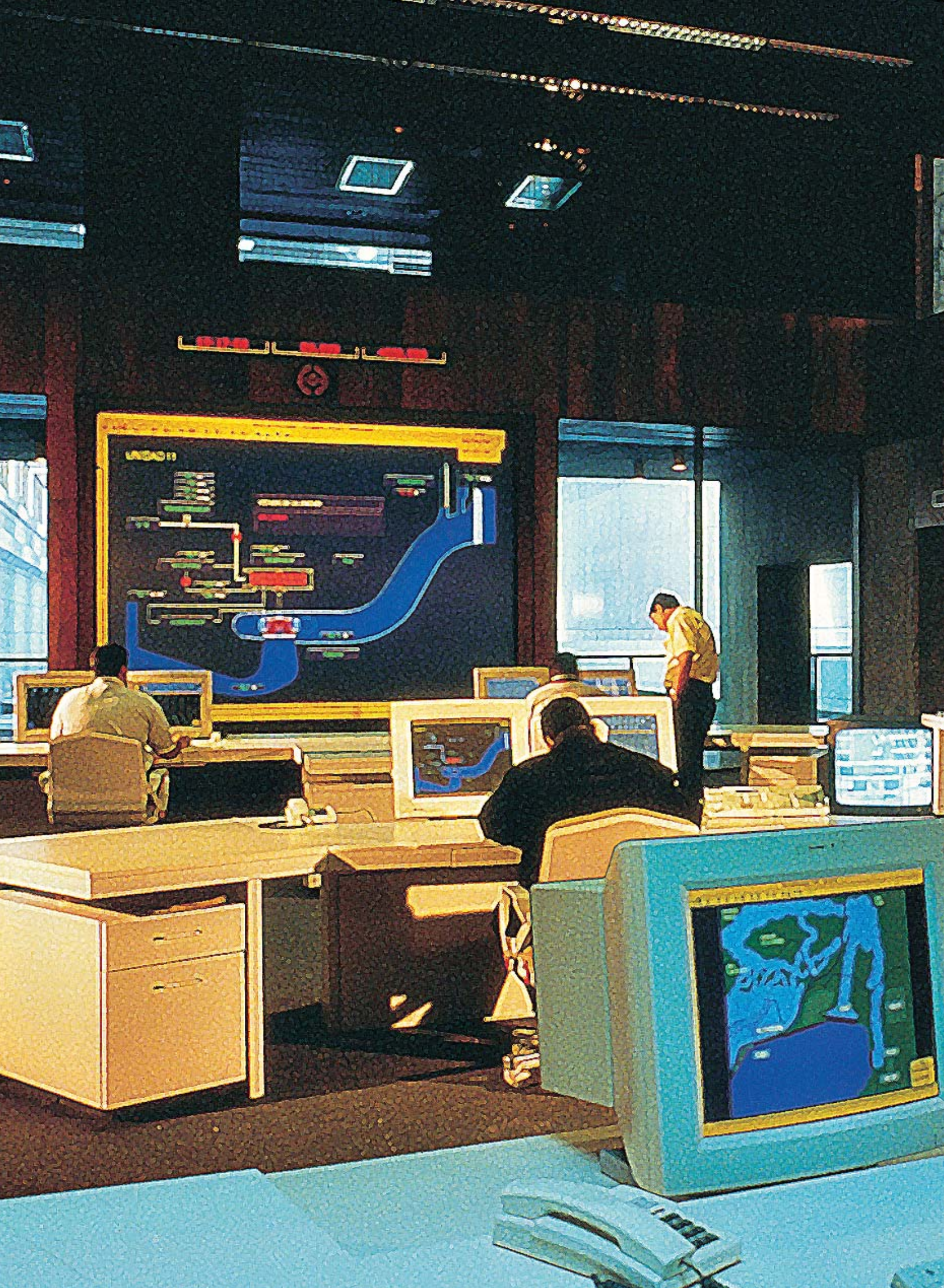
The accelerated pace for the development of added investment of the infrastructure for power interconnection in the Andean countries is due in part to the existence of price differentials between countries. But another important factor has been the adoption of supra-national legal and judicial norms, to significantly reduce investor risks, and thereby to lower the cost of added infrastructure.

Two of the provisions contained in CAN's Decision 536 are fundamental to the opening-up of international electricity markets in the Andean region. The first is that the grids must be open to all suppliers, in the sense that no one may impede another's access to their transporting capacity. The second is that no one may be discriminated against; meaning that everybody's access to the grid must be on the same terms. Other topics of importance contemplated in the normative cover payment guarantees, operations coordination and conflict resolution - all factors that can help to increase the certainty of future income flows needed to repay the investments.

And yet, there remains much to be done in South America. Aggregate international transfers of electricity amounted to about 47 TWh in 2001, up 60% from 1990, but represented only 7% of the energy consumed in the area. Barely 12% of generation capacity in the region is linked to interconnected systems. By international standards for comparable regions, these indicators are low and very low, respectively.

The preceding suggests that removing existing barriers to transactions can lead to the achievement of immediate integration benefits, such as less price dispersion, greater utilization of installed generating capacity, more use of complementarities between hydrologic conditions, demand schedules and fuel diversity among countries. Such improvements would have beneficial effects upon the countries' manufacturing industries and other productive endeavors.

CAF has been providing both technical and financial support to these complex efforts, which are beginning to show palpable effects in South and Central America.





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## Financial and operational analysis

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# Operations

ANNUAL REPORT 2003

## 1. Approved operations

IN 2003 CAF APPROVED OPERATIONS for an aggregate amount of \$3,303 million (see *Table N° 1*) thereby surpassing last year's approvals, and demonstrating once more the Corporation's anti-cyclical role, and its standing as a reliable provider of resources to the region, in response to the growing financial needs of its clients, both public and private. CAF's financing was earmarked for support to macro-economic stabilization, reform of the State and competitiveness; for social infrastructure projects; for the installation, expansion and modernization of manufacturing plants; for the strengthening of the countries' financial systems, and for a variety of business and foreign trade operations, including financing for working capital and technical cooperation.

Table N° 1

Amounts approved, by country						In US\$ Millions
Country/Year	1999	2000	2001	2002	2003	1999-03
Bolivia	248	343	464	503	619	2,177
Colombia	736	773	819	750	617	3,695
Ecuador	268	398	356	407	438	1,867
Peru	630	451	650	498	633	2,862
Venezuela	161	271	738	762	535	2,468
Other countries	139	87	169	371	461	1,227
<b>Total</b>	<b>2,181</b>	<b>2,323</b>	<b>3,197</b>	<b>3,290</b>	<b>3,303</b>	<b>14,294</b>

## Operations approvals by tenor

In 2003, more so than over the preceding five years, the volume of long-term operations exceeded by far that of shorter-term operations, with 67% having a tenor of 10 or more years. This pattern follows CAF's strategy to give priority to projects that require long-term financing, as one of the few sources of long-term funding currently available to the region.

Medium and short-term operations make up the remaining 33% of approvals, as shown in *Graph N° 1* and *Table N° 2*.

Graph N° 1

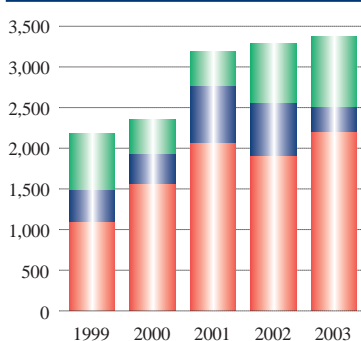


Table N° 2

Amounts of approved operations, by tenor						In US\$ Millions
	1999	2000	2001	2002	2003	1999-03
Long-term loans	1,048	1,556	2,020	1,920	2,202	8,746
Medium-term loans	476	402	795	625	218	2,516
Short-term loans	656	365	383	745	884	3,032
<b>Total</b>	<b>2,181</b>	<b>2,323</b>	<b>3,197</b>	<b>3,290</b>	<b>3,303</b>	<b>14,294</b>

## Approved operations by risk factor

In 2003 the volume of operations without sovereign risk guarantees rose by 26% with respect to year 2002 (See *table N° 3*) reaching \$1,137 million dollars (*Graph N° 2*). Despite this growth in operations without sovereign guarantees, the volume of operations with such guarantees continues to be important as a percentage of the total approved in 2003, with 66% of the stabled total.

Graph N° 2

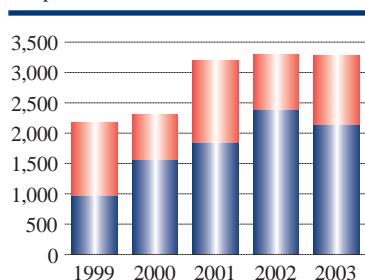


Table N° 3

Amounts approved by risk factor						In US\$ Millions
	1999	2000	2001	2002	2003	1999-03
With sovereign risk guarantee	995	1,517	1,841	2,385	2,166	8,904
Without sovereign risk guarantee	1,186	806	1,356	905	1,137	5,391
<b>Total</b>	<b>2,181</b>	<b>2,323</b>	<b>3,197</b>	<b>3,290</b>	<b>3,303</b>	<b>14,294</b>

## Approvals by economic sectors of projects

As in the previous year, 2003 saw much demand for infrastructure financing, that is to say, for transportation, warehousing, telecommunications, electric power, natural gas and waterworks (see *Table N° 4*) which absorbed 66% of the amounts approved, or US\$1,667 million. A majority of these funds were earmarked for communications infrastructure, to provide greater access for low-income earners to services that are basic to their welfare.

Table N° 4

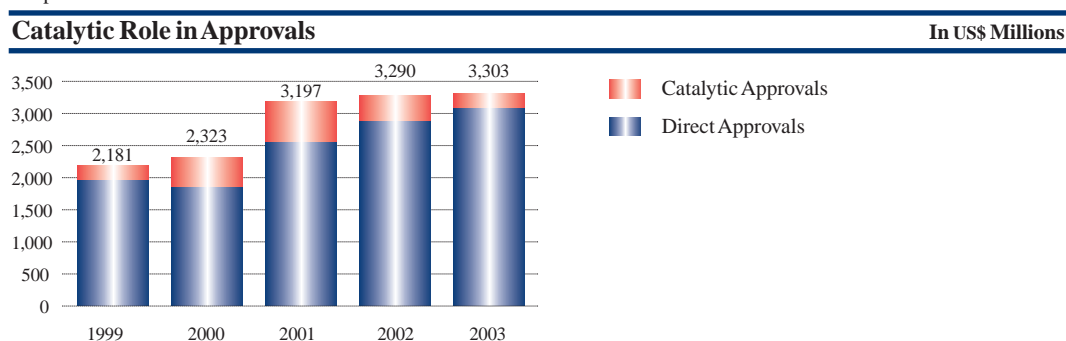
Approvals by economic sectors of projects						In US\$ Millions
Economic sectors	1999	2000	2001	2002	2003	1999-03
Agricultural infrastructure	53	58	84	80	51	325
Exploitation of mines and quarries		195			30	225
Manufacturing	77	60	513	22	281	953
Electric power, natural gas and waterworks	193	180	618	769	380	2,139
Transportation, warehousing and communications	402	340	672	1,103	1,287	3,804
Public sector administration	33	415	195		172	815
Hotels and restaurants	20	23	18	20		81
Financial intermediation	345	331	370			1,046
Other services and public health	253	145	296	369	271	1,334
Education	26	169	57	167	40	458
<b>Total</b>	<b>1,401</b>	<b>1,916</b>	<b>2,823</b>	<b>2,529</b>	<b>2,512</b>	<b>11,181</b>

Notable within this sector are the transport sector development programs approved for Bolivia, Ecuador and Peru, the mass transport grids in Venezuela, and the integration corridors in Argentina. Reflecting the concern about basic human needs, major efforts were made through sanitation programs in Bolivia, and reform of the State, competitiveness, governance and social investment in Colombia and Peru. Important advances were also made in energy development, with the Camisea natural gas transportation project and the Yuncan Hydroelectric Plant in Peru, as well as with the loan to expand power transmission lines in Venezuela.

## Financing structuring and catalytic role

The accumulated amount of complementary financing operations sponsored by CAF over the past five years surpassed \$1,940 million (See *Graph N° 3*) representing the Corporation's effort to provide to its clients access to other financial sources in the international markets.

Graph N° 3



\$223 million worth of third-party operations were approved in 2003, as B tranches of A/B loans. Continuing with the tendency begun in 2002, third-party resource utilization diminished further in 2003, as a result of the difficult conditions that prevailed in the international capital markets, and the dearth of eligible operations.

As reflected in *Table N° 5*, CAF's project financing and corporate lending rose by 11% in 2003 with respect to the prior year. There was a notable increase in project magnitude and in the level of participation from both local and foreign sources.

Table N° 5

<b>Composition of financing for projects and corporate loans</b>					In US\$ Millions
	1999	2000	2001	2002	2003
CAF lending	1,191	1,471	2,373	2,121	2,359
Clients' contribution	1,437	1,232	1,332	752	3,095
Other local sources	35	166	675	92	1,037
Extra-regional sources	1,445	2,655	1,154	624	3,191
• International lending institutions	130	1,221	152	146	1,625
• Other external sources	1,315	1,434	1,002	478	1,565
Total project cost	4,107	5,525	5,534	3,589	9,683
CAF lending as percentage of total cost	29%	27%	43%	59%	24%

## 2. Disbursements

In 2003 CAF disbursed US\$1,780 million, including the B tranches of A/B loans (*Table N°6*). Disbursed amounts were earmarked for commitments to specific clients, projects and programs, and aimed at promoting development with regional integration. The vast majority of the resources disbursed (92%, or \$1,635 million) were for the countries in the Andean Community.

Table N° 6

<b>Disbursed amounts, by country</b>						In US\$ Millions
	1999	2000	2001	2002	2003	1999-03
Bolivia	263	150	271	365	346	1,395
Colombia	393	818	379	591	325	2,507
Ecuador	212	235	371	221	359	1,399
Peru	406	362	695	413	267	2,143
Venezuela	294	108	719	311	337	1,770
Other countries	245	146	112	284	145	932
<b>Total</b>	<b>1,813</b>	<b>1,819</b>	<b>2,548</b>	<b>2,186</b>	<b>1,780</b>	<b>10,145</b>

### 3. Portfolio

At the conclusion of 2003 CAF's total investment and loan portfolio, as defined below, reached a combined total of \$7,451 million, 3% higher than in 2002. Average growth of CAF's portfolio for the years 1999-2003 was 12%, starting with a base of \$4,776 million, as reflected in *Table N° 7*. As seen in this Table, CAF's total portfolio includes direct operations, third-party portfolios under CAF management, and third-party credits attracted by means of CAF's partial credit guarantee program.

Graph N° 4

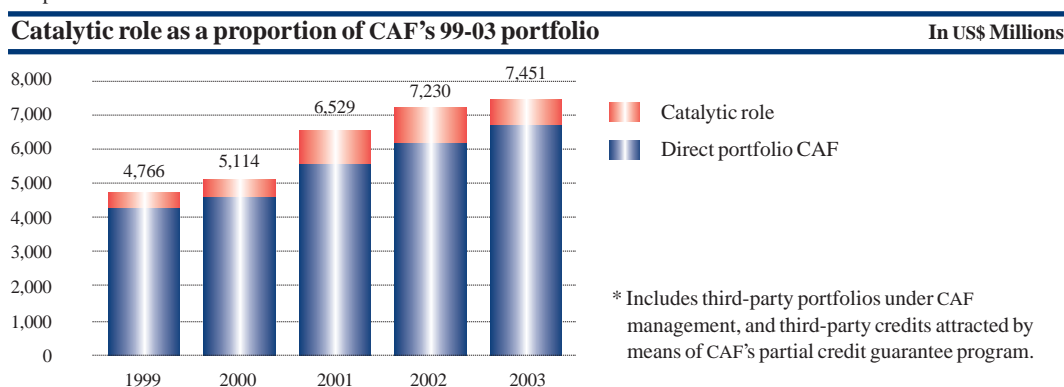


Table N° 7

<b>Total Portfolio*</b>						In US\$ Millions
	1999	2000	2001	2002	2003	
Sub-total direct portfolio CAF	4,291	4,609	5,575	6,180	6,712	
• Loan Portfolio CAF	4,188	4,478	5,455	6,062	6,597	
• Equity investments	103	131	120	117	115	
Sub-total catalytic role	475	505	954	1,051	738	
• Portfolio under administration	475	255	700	647	409	
• Equity investments under administration**			4	4	4	
• PCG-related portfolio		250	250	400	325	
<b>Total CAF portfolio</b>	<b>4,766</b>	<b>5,114</b>	<b>6,529</b>	<b>7,230</b>	<b>7,451</b>	

\* Includes third-party portfolios under CAF management, and third-party credits attracted by means of CAF's partial credit guarantee program.

\*\* Refers to the Human Development Fund's (FDH) equity investment portfolio.

## Total portfolio by country

The distribution of CAF's total portfolio by country is shown in *Table N° 8*, reflecting last year's disbursements and repayment flows. As can be seen, over 90% of the portfolio is with countries belonging to the Andean Community, and the remainder is with other shareholder countries and in regional operations.

Table N° 8

<b>Total portfolio* by country</b>		<b>In US\$ Millions</b>				
<b>Country</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	
Bolivia	504	486	581	703	883	
Colombia	916	1,584	1,835	2,122	1,991	
Ecuador	939	953	1,120	1,122	1,209	
Peru	959	707	1,112	1,299	1,403	
Venezuela	1,025	919	1,406	1,348	1,289	
Other countries	421	464	475	637	676	
<b>Total</b>	<b>4,766</b>	<b>5,114</b>	<b>6,529</b>	<b>7,230</b>	<b>7,451</b>	

\* Includes third-party portfolios under CAF management, and third-party credits attracted by means of CAF's partial credit guarantee program.

## Portfolio according to operational modality

As shown in *Graph N° 5* and *Table N° 9*, the long-term portion of CAF's portfolio – mostly in long-lasting infrastructure programs and projects – continued to grow, reaching \$6,444 million, while the short and medium-term portion experienced a contraction.

Graph N° 5

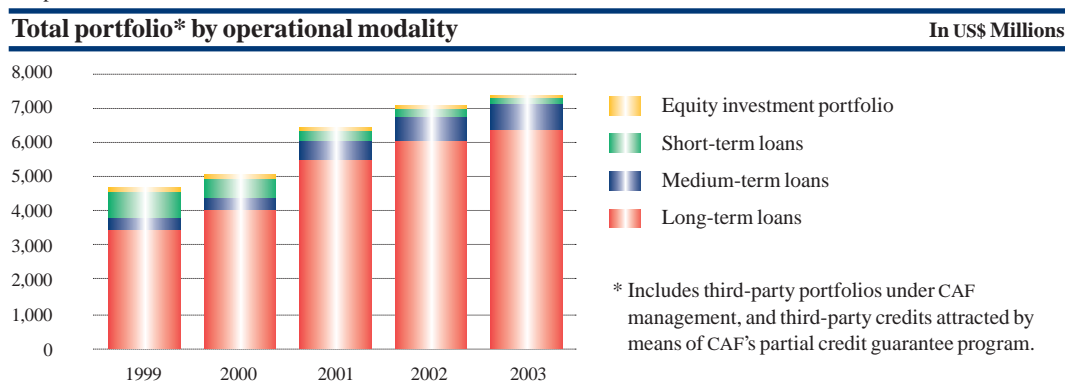


Table N° 9

<b>Total portfolio* by operational modality</b>		<b>In US\$ Millions</b>				
<b>Operational modality/Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	
Equity investment portfolio	103	131	124	121	119	
Long-term loans	3,573	4,213	5,560	6,151	6,444	
Medium-term loans	324	259	583	763	748	
Short-term loans	767	511	263	195	139	
<b>Total</b>	<b>4,766</b>	<b>5,114</b>	<b>6,529</b>	<b>7,230</b>	<b>7,451</b>	

\* Includes third-party portfolios under CAF management, and third-party credits attracted by means of CAF's partial credit guarantee program.

## Total portfolio by institutional sector

CAF's 2003 end-of-year total portfolio is 85% comprised of loans to the public sector, with \$6,315 million (*Table N° 10*), evidence of the Corporation's strong support for its shareholders and principal clients. Private sector beneficiaries have maintained their 15% share (\$1,136 million.) The private sector proportion rises to 21% if we include CAF's lending to national development agencies, which is in turn lent to private sector firms.

Table N° 10

<b>Total portfolio* by institutional sector</b>					<b>In US\$ Millions</b>
<b>Institutional sector</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Public sector	3,064	3,804	4,777	5,719	6,315
Private and mixed sectors	1,702	1,311	1,752	1,512	1,136
<b>Total</b>	<b>4,766</b>	<b>5,114</b>	<b>6,529</b>	<b>7,230</b>	<b>7,451</b>

\* Includes third-party portfolios under CAF management, and third-party credits attracted by means of CAF's partial credit guarantee program.

## Total portfolio by economic sector

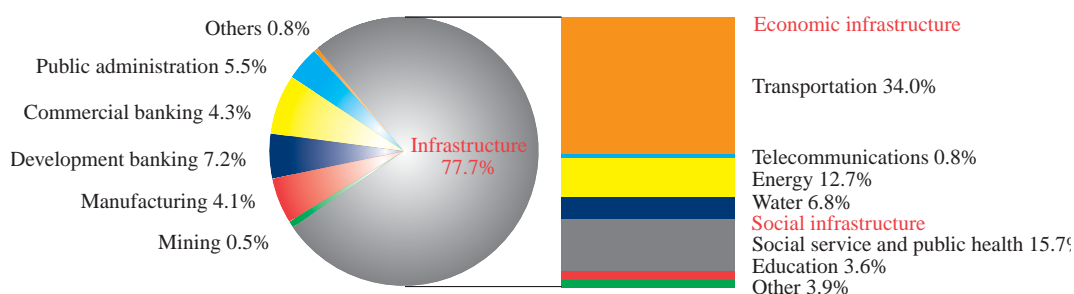
*Table N° 11* and *Graph N° 6* show that in 2003 infrastructure continued to be the sector with the highest demand from member countries, and consequently the one receiving the greatest level of support from CAF. The portion of the portfolio dedicated to transportation, warehousing and communications (which rose by a significant 28% over the preceding year) together with electric power, natural gas and waterworks, represent one-half of CAF's total portfolio.

Table N° 11

<b>Total portfolio* by economic sector</b>					<b>In US\$ Millions</b>
<b>Economic sector/Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Agricultural infrastructure	201	254	201	344	293
Exploitation of mines and quarries	72	40	0	4	34
Manufacturing	344	306	690	511	307
Electric power, natural gas and waterworks	976	1,050	1,396	1,624	1,454
Transportation, warehousing and communications	1,174	1,340	1,525	2,023	2,597
Commercial banking	592	517	735	522	319
Development institutions	751	727	611	595	534
Education, social and health services	383	447	561	1,542	1,444
Other activities	274	433	810	66	469
<b>Total</b>	<b>4,766</b>	<b>5,114</b>	<b>6,529</b>	<b>7,230</b>	<b>7,451</b>

\* Includes third-party portfolios under CAF management, and third-party credits attracted by means of CAF's partial credit guarantee program.

Graph N° 6

**Total portfolio by economy sector** **As of December 31, 2003**

\* Includes third-party portfolios under CAF management, and third-party credits attracted by means of CAF's partial credit guarantee program.

**Equity investment portfolio**

By the end of 2003, CAF's equity investment portfolio stood at \$119 million, composed mostly of participations in the capital of regional investment funds, and to a lesser extent in the capital of national development agencies and institutions specializing in lending support to micro enterprises.

Table N° 12

<b>Total equity investment portfolio</b>		<b>In US\$ Millions</b>				
<b>Country/Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	
Bolivia	10	10	9	10	10	
Colombia	10	4	2	2	2	
Ecuador	1	1	1	1	1	
Peru	27	27	23	16	14	
Venezuela	3	3	2	2	0	
Other countries*	52	86	87	89	92	
<b>Total</b>	<b>103</b>	<b>131</b>	<b>124</b>	<b>121</b>	<b>119</b>	

\* 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. Operations with funds for cooperation**

The sources of the funds for cooperation 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 Cooperation, FACE (Energy) and KFW (funds managed for Germany's FKW Mittelstandsbank). Funds for cooperation also include funds especially set aside for Bolivia and Ecuador, as well as for the HIPC program.

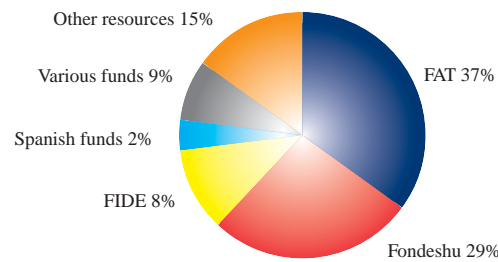
In the course of 2003 CAF approved approximately \$34 million with funds for cooperation. As can be seen in *Graph N° 7*, the Technical Cooperation Fund (FAT) carried the most weight, with 37% of the activity in 2003, or approximately \$12.5 million. Fondeshu came next, with about \$10 million, nearly one-third of the total, followed by HIPIC resources, which had 18% of the total. Also worth noting are FIDE which had \$2.8 million in support of small and medium-size enterprises, and the Spanish Funds for Cooperation, with \$0.5 million, or 2% of total.

Graph N° 7

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**Source of funds for cooperation**

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As seen in *Graph N° 8* a high proportion of the funds for cooperation were applied in support of CAF's strategic programs, such as IIRSA, PAC, Governance, related to the environmental agenda, and cultural and community development. Micro-finance institutions, small and medium-size enterprises (including venture capital investments) and the HIPC program also benefited from these funds.

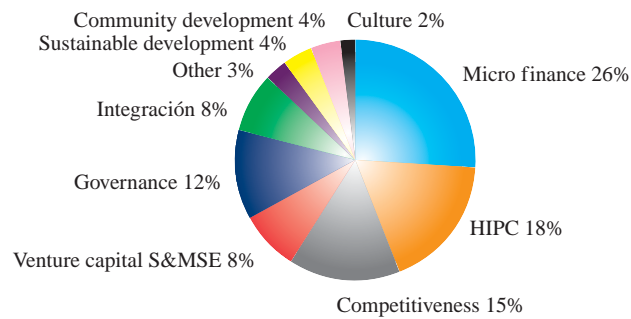
Some of the funds for cooperation are earmarked for specific uses. Otherwise, these funds are used mostly to contract the preparation of studies, including pre-feasibility, intended to support institutional strengthening and training efforts, and to finance productive endeavors in the context of community development programs.

Graph N° 8

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**Use of the funds for cooperation**

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# Bolivia



OVER THE PRECEDING FIVE YEARS (1999-2003) CAF has approved an aggregate amount of \$2,177 million in operations for Bolivia, resulting in a yearly average of \$435 million. Over the same span of years, disbursements were \$1,395 million, representing 14% of the Corporation's total.

With \$346 million disbursed in 2003, Bolivia's total portfolio\* reached \$883 million, distributed sectorally as follows: 49% for infrastructure; 30% to support production reactivation, investment projects financing, and for trade and working capital of small and medium-size enterprises; and 21% for mining, tourism, agriculture, manufacturing, public administration, and other areas of economic activity.

Year 2003 approvals were \$619, or 19% of CAF's total \$3,303 million. Approved operations were for the strategic areas defined by the Corporation, including transportation, macroeconomic stabilization, improvement of productivity and competitiveness, production and financial strengthening, and, most importantly, help to provide for the needs of the most vulnerable sectors of the population.

In transportation and telecommunications, the approved amount of \$115 million went to projects for the development, improvement and conservation of Bolivia's road network, with a view to incorporate into the national economy a number of regions that show promise for production; to foster physical integration works in border areas; reduce the isolation of certain areas of the country, and to strengthen the finances of the Telecommunications Cooperative of Santa Cruz.

\$124 million was allocated to help macroeconomic stabilization, by supporting structural reforms agreed upon with the government. These reforms include the strengthening of the National Tax Administration System and the Ministry of Economics; support for the productive and financial sectors in the area of indebtedness, and functional distributions among financial supervisory and regulatory agencies.

\$25 million was approved to help support economic stability by preserving employment levels through PLANE, a government-sponsored program to increase public sector investment as a means of promoting large-scale employment in both urban and rural areas. Also part of the macroeconomic effort were CAF's contingent line of credit to the Central Bank and several operations with the Treasury, adding-up to \$125 million, whose purpose was to stabilize expectations throughout the economy amid the uncertainty prevailing during last October's political crisis.

A \$75 million operation is earmarked for improving productivity and competitiveness in the real sector of the economy, through a program designed to strengthen businesses, and to help improve their competitive position. In addition, \$67 million was approved for working capital and trade financing. As part of its effort in support of micro-enterprises, the Corporation approved \$9 million in direct operations and with funds under administration, which served to increase the lines of credit in favor of three of its seven clients in Bolivia. In addition, CAF took steps to help the government agencies concerned to evaluate the performance and assess the prospects of micro finance institutions in Bolivia.

### Other contributions to Bolivia's sustainable development

In the field of social development CAF approved \$85 million for two programs aimed at low income earners: One for basic sanitation works, and another for suburban and rural infrastructure works, to help overcome problems of an inadequate drinking water supply and sewage in a number of cities, and to provide basic infrastructure to people in poor areas.

Using resources from its funds for cooperation, in 2003 CAF provided \$6 million to the Multilateral Program for Debt Reduction in the context of HIPC (Heavily Indebted Poor Countries), and \$3

\* Includes third-party portfolio, promoted and managed by CAF, and loans linked with Partial Credit Guarantees.

**Operations approved for Bolivia. Year 2003**

In US\$ Millions

Client and Executing Agency	Operation	Objective	Amount	Term (Years)	Project Cost
Finance Ministry	Support for the Economic Program	Reactivation and economic stabilization. Structural reforms.	124	10	777
National Roads Service/ Office of the Chief for the Department of La Paz	Support for the Transportation Sector	Lend support to the development, improvement and conservation of road infrastructure in Bolivia.	100	15	143
Finance Ministry	Program to strengthen equity positions and competitiveness of enterprises	Contribute to the reactivation of the productive sector by strengthening the equity positions and competitiveness of its enterprises.	75	10	160
Economic Development Ministry	Program for suburban and rural infrastructure, natural gas and social safety net	Supply the basic infrastructure required by people in the suburban and rural areas.	55	15	69
Ministry of Public Works and Services	Investment Program for Basic Sanitation	Provide support for improving productive capacity in the country by carrying out infrastructure projects for basic sanitation in the period 2002-2007.	30	15	496
Central Bank of Bolivia	Liquidity Facility for Bolivia's Central Bank	Improve liquidity in the financial market.	25	90 days	25
Republic of Bolivia	Financing for the National Emergency Employment Plan	Help employment generation by hiring micro-enterprises to build infrastructure works in urban and rural areas.	25	10	103
Finance Ministry	Treasury operations		100	Varied	
Telecommunications Cooperative of Santa Cruz - COTAS	Corporate loan	Lend support to the cooperative's institutional and financial strengthening.	15	6	15
Various clients	Trade and working capital financing	Provide financing for foreign trade, working capital requirements and capital goods.	67	Varied	
Various clients	Other operations	Technical cooperation and Fondeshu	3	Varied	
<b>Total</b>			<b>619</b>		<b>1,788</b>

million for a variety of public and private sector activities, pertaining to micro finance, governance, competitiveness, sustainable development, integration and culture.

Enhanced governance was promoted through the Program for Institutional Strengthening and Training in Decentralization and Citizen Participation, by means of workshops for leaders and support groups nationwide, and by strengthening several government institutions.

Through PAC (the Andean Competitiveness Program), acting together with Bolivia's Productivity and Competitiveness Unit, CAF provided support to the promotion of four clusters (grapes, wines and singanis; woods; leather products; and textiles and garments.) In addition, CAF continued its collaboration with the effort to create Business Incubators of Bolivia. The technical assistance of the University of Pennsylvania's Wharton School, designed to promote exports to the U.S. market, was provided by CAF to the high-potential area of wines and singanis.



In the area of culture and community development CAF gave support to traditional art management projects jointly with the Ministry of Economic Development; to training programs in basic trades with existing workshops; to instruction in orchestral and choral music, and the teaching of instrument-making techniques and skills; and to the Tahuichi Academy's sports training efforts in girls' soccer, as a tool for social rescue. Lastly, CAF provided aid to community projects for tourism in Uyuni and Tiwanaku, and for health and education in Morochata and Calamarca.

*Above:*

Rehearsal by the youth orchestra of Urubichá (Chiquitanía) as part of CAF's Culture Through Music Program, aimed at providing training in the art of ensemble performance to children and youths, as a way of fostering their development into sensitive, peaceful and well-structured individuals.

*Besides:*

Girls from low-income families gain access to soccer practice within a social rescue effort sponsored by the Tahuichi Aguilera Academy in Santa Cruz de la Sierra.

*Right:*

Through its Andean Competitiveness Program CAF has lent support to Tarija's cluster for grapes, wines and singanis, helping it to design a strategic development plan for its enterprises.







OVER THE PRECEDING FIVE YEARS (1999-2003) CAF has approved an aggregate amount of \$3,695 million in operations for Colombia, resulting in a yearly average of \$739 million. Over the same span of years, disbursements were \$2,507 million, representing 25% of the Corporation's total.

With \$325 million disbursed in 2003, Colombia's total portfolio\* reached \$1,991 million, distributed sectorally as follows: 69% for infrastructure; 15% to support production reactivation, investment projects financing, and for trade and working capital of small and medium-size enterprises; and the remaining 16% for manufacturing, public administration, and other areas of economic activity. Within the proportion disbursed for infrastructure, 47 percentage points went to transport, electric power and waterworks projects, and the remaining 22 percentage points to social infrastructure – mostly for education, community and social services, and health.

Year 2003 approvals were \$617 million, or 19% of CAF's total \$3,303 million. Of the amount approved, \$300 million was for government programs aimed at improving the management of public funds, and strengthening public sector investment.

Regarding the first subject, the effort for reform of the State has already resulted in several organizational changes, including the merger of ministries, the restructuring of some agencies and the elimination of other unnecessary ones; as well as staff reductions through natural wastage. Such organizational changes have generated significant savings for the government's central budget. In addition, a set of functional and operational reforms have improved the formulation of policies on government procurement practices, management of productive state-owned assets, evaluation of public sector management and employment, and rationalization of administrative regulations, as well as the production of a strategy for the Nation's legal defense.

The public sector investment component of the program includes support for infrastructure projects with high social benefits, such as subsidies to low-income housing in both the urban and the rural areas, and the establishment of a new school system with more efficient resource allocation mechanisms, aimed at improving the quality of young children's education. CAF's financing was also used in the public health field, to support programs for prevention, control and monitoring, as well as for expanded vaccination campaigns, all intended to eradicate immuno-preventable diseases or to control their spread. Financing earmarked for the transport sector was used to support projects under execution by the National Roads Institute, and for the mass-transit systems in Bogota and Cali.

To assist the government's banking sector to provide resources for the needs of small and medium-size private enterprises, CAF established a line of credit of up to \$50 million in favor of Banco de Comercio Exterior de Colombia. The operation was funded with local currency generated with a CAF bond issue in the Colombian market, in its first-ever operation of this kind in the region. In addition to helping to strengthen the nation's capital markets, this type of bond issue provides opportunities to channel domestic savings towards strategic sectors for the country's competitiveness.

Using its own resources and those of co-participating institutions attracted by it, CAF contributed an aggregate amount of \$263 million to the financing of working capital and investment requirements for the private sector. Out of this total, \$108 million went to twelve financial institutions to renew established lines of credit and to open new ones, as well as \$5 million to acquire capital shares in a venture designed to promote security. In support of corporate development, CAF approved a \$150 million A/B loan to Bavaria, S.A. The proceeds of this operation are for the purchase of fixed and operational assets, within the private group's strategy for regional consolidation throughout Panama, Colombia, Ecuador and Peru, which will contribute to generate employment in the region.

\* Includes third-party portfolio, promoted and managed by CAF, and loans linked with Partial Credit Guarantees.

**Operations approved for Colombia. Year 2003**

In US\$ Millions

Client and Executing Agency	Operation	Objective	Amount	B Tranch	Term (Years)	Project Cost
Ministry of Finance	Program in support of the reform of the State competitiveness and social investment	Attend to urgent needs in the Republic of Colombia by supporting the implementation of the National Development Plan 2002-2006, seeking to help achieve its four principal objectives, which are: (i) Provide democratic security; (ii) Promote sustainable economic growth and employment generation; (iii) Build social justice, and (iv) Increase the efficiency and transparency of government actions.	300		10	430
Bavaria, S.A.	Corporate Loan	The acquisition of fixed and operational assets within the framework of a strategy to consolidate the group's position in the markets in which it is active.	150	113	5	150
BANCOLDEX	Line of Credit	Loan to supply the needs of small and medium size firms in Colombia.	50		2	50
Titularizadora Colombiana, S.A.	Equity participation	Promote mortgage financing.	5			
Various clients	Trade and working capital financing	Provide financing for foreign trade, working capital requirements and capital goods.	108		Varied	
Various clients	Other operations	Technical cooperation and Fondeshu.	4			
<b>Total</b>			<b>617</b>	<b>113</b>		<b>630</b>

**Other contributions to Colombia's sustainable development**

During 2003 CAF granted Colombia \$4.2 million from its cooperation funds. Continuing with its important contribution to small businesses, CAF channeled \$2.5 million to seven institutions of micro-finance, and cooperated with public sector agencies, particularly with the Ministry of Finance and the Deputy-Ministry of Industry, to assist in preparations leading to the promulgation of micro-finance's regulatory framework. Technical cooperation resources were also applied to co-finance the design of a program to improve public sector administration.

Also in the area of governance, CAF helped to facilitate institutional strengthening and citizen involvement through the provision of technical assistance to a number of public sector institutions. CAF also advanced this cause by its sponsorship of training programs for leaders and support groups. Jointly with the Office of the Vice-President of Colombia, CAF provided support to efforts to foster democratic governance through the execution of national and regional programs in ethics, transparency, institutionality, decentralization, citizen involvement and leadership change. In addition, a national opinion poll on governance was conducted with CAF's financial contribution.

To enhance competitiveness, CAF gave support to three clusters: one in electric machinery and equipment, and professional electronics; another in fruit and vegetable production in the Cauca Valley; and a third for highway cargo transportation. Their primary emphases were improved foreign trade, increased production capacity, and enhanced reliability and safety. To help build up entrepreneurial capability, CAF carried out the third promotional presentation of its virtual lectures on how to start a technology-based business, and began the second stage of its Andean program to promote



Vegetable and fruit cluster in the Cauca Valley, executed by the Center for Technological Research and Development of the Food Industry (CIAL) in the framework of CAF's Andean Competitiveness Program. Among its activities, the program promotes the development of productive networks.

Communal work session in the framework of the "Network of Towns" project, developed by the Misión Rural Corporation with support from CAF, and with the participation of 12 local authorities and the Office of the Governor of the Department of Cundinamarca

Within the same project, a community in the Pacho Municipality engages in an event called "barter encounter" the rules of which are designed by the participants themselves.

exports of technology and related services. Additionally, a number of events and activities were held to promote productivity enhancement and technological development.

In the realm of culture and community development, CAF provided support for workshops in traditional art management jointly with Proexport, and sponsored instruction in orchestral and choral music, as well as in instrument-making techniques and skills. A project named Network of Towns, sponsored by CAF jointly with the Governorship of Cundinamarca and twelve of its local authorities, began to assist in the preparation of locally-developed business plans to attract potential sources of financing to the area. In Valle del Cauca, within a partnership of other international donors and the VallenPaz Corporation, CAF began a com-

munity development project based upon the production of organically grown cocoa, combined with training and social organization, in a combination of the better elements of traditional cultivation methods and new technologies being introduced.

Finally, non-reimbursable technical assistance for two productive operations were approved: "Organizational, technical and entrepreneurial consolidation of Women Producers and Merchants of Medicinal and Aromatic Plants of Quibdó-Chocó", directed toward the commercialization of seasonings; and "Essential Oils: the new agricultural vision in Santander", based on a scheme that will allow farmers who participate in this initiative to be shareholders of the company that will commercialize their products.









OVER THE PRECEDING FIVE YEARS (1999-2003) CAF has approved an aggregate amount of \$1,867 million in operations for Ecuador, resulting in a yearly average of \$373 million. Over the same span of years, disbursements were \$1,399 million, representing 14% of the Corporation's total

With \$359 million disbursed in 2003, Ecuador's total portfolio\* reached \$1,209 million, distributed sectorally as follows: 63% for infrastructure; 24% to support investment projects financing, and for trade and working capital of small and medium-size enterprises; and the remaining 13% for manufacturing, public administration, and other areas of economic activity, including support for macroeconomic stabilization efforts. Within the proportion disbursed for infrastructure, 42 percentage points went to transport, 8 to electric power, another 8 for drinking water, irrigation and sewage projects, and the remaining 5 percentage points to social infrastructure – mainly for education, community and social services, and health.

Year 2003 approvals were \$438 million, or 13% of CAF's total \$3,303 million. Of the amount approved, \$360 million were for government programs aimed at improving the country's macroeconomic and institutional climate, and supporting infrastructure development and competitiveness.

\$100 million out of this sum was allocated to help finance the government's economic program, focusing on key policies such as national planning, decentralization to local governments, and the strengthening of limited supervision of financial markets, with particular attention to *in-situ* banking inspections.

The remaining \$260 million was channeled to a transportation and competitiveness program, designed to improve the country's highway system by enhancing its efficiency and reliability, and to strengthen the roads to specifications that can withstand the shock of nature's forces such as the El Niño phenomenon. The competitiveness component seeks to support a series of measures aimed at helping Ecuador to increase its participation in the global economy through increased productivity, conducive to employment generation and improved living conditions for the population.

Operations directed at the private sector amounted to \$77 million, including \$29 million in direct financing to businesses for trade and working capital financing, and \$48 million channeled through financial intermediaries, including micro-finance institutions.

## Other contributions to Ecuador's sustainable development

In 2003 CAF provided Ecuador with \$2 million in technical cooperation from three of its funds: The Technical Assistance Fund (FAT), the Special Fund for Ecuador (FEE) and the Human Development Fund (Fondeshu). The technical assistance operations were aimed at the fields of governance, competitiveness, integration, cultural development, and micro finance.

In governance CAF continued its support of an institutional strengthening program to train leaders and support groups in decentralization and in citizenship awareness. It also helped the office of the country's President to carry out projects to foster national unity and to promote improvements in PETROECUADOR's economic, financial and environmental policies and practices.

Year 2003 saw the successful completion of several initiatives fostered by the Andean Competitiveness Program (PAC). A project named Promotion of Dialogue Between the Universities and Agribusiness, financed by CAF and implemented by IICA, has yielded good coordination between the two beneficiary groups. Ecuador's Central Bank completed the execution of a project aimed at simplifying export procedures, recommending among other enhancements the establishment of export

\* Includes third-party portfolio, promoted and managed by CAF, and loans linked with Partial Credit Guarantees.

**Operations approved for Ecuador. Year 2003**

In US\$ Millions

Client and Executing Agency	Operation	Objective	Amount	Term (Years)	Project Cost
Ministry of the Economy and Finance - MEF	Loan in Support of the Economic Program	Improve the prospects for the execution of the economic program and strengthen country governance and the financial system.	100	9	100
Ministry of Public Works – MOP/Ministry of the Economy and Finance - MEF	Transportation and Competitiveness Sector Program	The loan is designed to improve the country's highway system by enhancing its efficiency and reliability, and to strengthen the roads to specifications that can withstand the shock of nature's forces such as the El Niño phenomenon. The competitiveness component seeks to support a series of measures aimed at helping Ecuador to increase its participation in the global economy through increased exports and productivity, conducive to employment generation and improved living conditions for the population.	260	10	439
Various clients	Trade and working capital financing	Provide financing for foreign trade, working capital requirements and capital goods.	77	Varied	
Various clients	Other operations	Technical cooperation and Fondeshu.	2		
<b>Total</b>			<b>438</b>		<b>539</b>



Interior and exterior views of a community training center on wheels, part of a project executed by the Politécnica del Litoral School (ESPOL), within CAF's Andean Competitiveness Program, to bring access to information technology to the people in Ecuador's rural communities.



credit insurance. In information technology, the Community Training Centers established by ESPOL have provided instruction to over 2,000 students from the rural areas. The project for business pre-incubators, aimed at university students, wound up by establishing business development centers at several universities, while a

recently started incubator already boasts a set of sixteen business initiatives under development. Lastly, PAC began implementation of a project to support textile and garment clusters in Ecuador with the aim of increasing exports within the framework of ATPDEA.

In the field of regional integration, CAF lent support to the Ministry of Foreign Affairs in its capacity as

the Andean Community's Secretariat pro-tempore, and continued to provide assistance concerning ALCA negotiations and trade promotion.

In the field of cultural development, CAF sponsored instruction in orchestral and choral music, and in instrument-making techniques and skills. Additionally, a project started by CAF in combination with the Amiga Foundation and the Solidario Financial Group, uses sports as a tool for retraining and education as an adjunct to standard schooling, thereby seeking to help youngsters to learn useful trades and become solid citizens.

Another recently approved project seeks to strengthen the organization established by four thousand Indian and peasant women, through helping them to improve the members' living conditions, production and marketing practices, health, education, environment and social fabric. This project, undertaken jointly with the Ecuadorian and Canadian Fund for Development (FRCD) and the Andean Foundation for Women and Families (FNDAMYF), is an integrated effort that includes components in such fields as health, education, organization for production and environmental management.

Ecuador's micro-finances also benefited from CAF's operations in 2003, with an additional \$1 million in financing, and a first disbursement to a brand-new micro-finance institution, the Sociedad Financiera Ecuatorial. A noteworthy achievement was the understanding reached between CAF, IADB, USAID and the IFC on a set of shared criteria for assessing and promoting micro-finance development, defining appropriate regulatory frameworks for financial entities of this kind, and gauging their tendencies for the future. Also important was CAF's contribution to the nationally outstanding and internationally recognized Third Ecuadorian Forum on Micro-enterprise, which highlighted prudential regulation and innovative financial mechanisms. Finally, an effort was initiated in 2003 to identify regulated micro-finance institutions qualified to become new clients in CAF's portfolio.

Community gathering of produce-growing women in Chimborazo's Randimpak Project. The project is fostered by the Ecuadorian-Canadian Development Fund and the Indigenous and Farming Women's Federation of Chimborazo, with support from CAF and other regional institutions.







OVER THE PRECEDING FIVE YEARS (1999-2003) CAF approved an aggregate amount of \$2,862 million in operations for Peru, resulting in a yearly average of \$572 million. Over the same span of years, disbursements were \$2,143 million, representing 21% of the Corporation's total.

With \$267 million disbursed in 2003, Peru's total portfolio\* reached \$1,403 million, distributed as follows: 74% for infrastructure; and the remaining 26% for mining, manufacturing, public administration, and other areas of economic activity. Within the proportion disbursed for infrastructure, 29 percentage points went to transport, electric power and waterworks projects, and the remaining 45 percentage points to social infrastructure – mostly for social infrastructure such as public health (32 points) and education (5).

Year 2003 approvals were \$633 million, or 19% of CAF's total \$3,303 million. Approvals were earmarked for use in a number of areas strategically defined by CAF, including social investment, transport and electric power, enhancement of productivity, governance and competitiveness, and support for the business and financial sectors.

\$228 million was approved for social investment, competitiveness, reform of the State, and governance. Within social investment is a multi-sectoral program developed with the government to provide support for sanitation, agriculture, energy, women's projects, social development, education and health, while generating sustainable production and employment, thus doing away with the role of the State as aid provider. In competitiveness, several new clusters were identified in compliance with national priorities, which emphasize employment generation, traditional exports, improvement of the business climate, simplification of procedures and removal of obstacles along the logistic chain, and the enhancement of skills in the labor force. In promoting the reform of the State, CAF continued to provide support to those activities that stress efficiency in public sector administration, and tend toward gradual and effective sustainable development.

\$172 million was approved for a transport program that seeks to help improve and maintain the infrastructure in the country's roads, ports and airports, as well as to foster the institutional strengthening of the agencies charged with implementing Peru's transportation policies. The program contains incentives for private sector participation in all forms of transportation.

Also in 2003, \$125 million was approved for two projects in the energy sector: the Camisea gas transportation pipeline, and the Yuncán hydroelectric plant. The latter, with 130 MW installed capacity, is located in the Pasco province. In connection with it, a \$50 million CAF guarantee was issued to the Peruvian government.

For the Camisea project a \$75 million A/B loan was provided to Transportadora de Gas del Peru. This project aims to transport gas extracted in the Peruvian jungle to the coast, then to Lima and other cities, and beyond, to Mexico and the U.S. In addition to its A/B loan, CAF approved financing for the amount of \$5 million for environmental and social management in connection with the Camisea project. With a total cost estimated at \$1.5 billion, the Camisea project involves the installations needed to extract natural gas from the field; gas and liquid pipelines to transport the product, and a natural gas distribution network in the cities of Lima and El Callao.

A number of loans totaling \$94 million were approved for the corporate and financial areas. Additionally, CAF continued to provide support to micro-finance institutions through financing from both its own resources as well as others under its administration, extending its standing as the main financial source for the regulated set of institutions of this kind. Two well-known and highly regarded Edpymes were incorporated, one located in northern Peru and the other in the country's center. Also, in its first operation of its kind, CAF provided support to a local bond issue floated by Mibanco.

In addition, CAF provided \$9 million for regional physical integration.

\* Includes third-party portfolio, promoted and managed by CAF, and loans linked with Partial Credit Guarantees.

**Operations approved for Peru. Year 2003**

In US\$ millions

Client and Executing Agency	Operation	Objective	Amount	B Tranch	Term (Years)	Project Cost
Ministry of the Economy and Finance- MEF/Ministry of Transport and Communications - MTC	Transport Sector Development Program	Ensure safe passage of traffic along the country's highway network by incorporating best international practices; promote the private sector's role in the construction and management of projects and in the provision of transport services, to achieve greater efficiency and to provide better service to the users.	172		12.5	657
Ministry of the Economy and Finance - MEF	Program in support of the reform of the State, competitiveness and social investment.	To help the country achieve three objectives: (i) Entry into the global economy; (ii) Advance in the reform of public administration to improve its performance (iii) Improve living conditions for the neediest through the construction of investment programs with a social content.	228		12.5	849
Transportadora de Gas del Peru, S.A. - TGP	Camisera Natural Gas Transportation System	The project includes three components: (i) development of a natural gas field with an investment of about \$600 million; (ii) construction of two pipelines: one for natural gas and another for liquids; and, (iii) construction of distribution grids for natural gas in Lima and El Callao.	75	25	12	813
Ministry of the Economy and Finance-MEF	Guarantee for the Yuncán Hydroelectric Power Project	To enable the construction of a power plant with a 130MW capacity.	50		4	262
Ministry of the Economy and Finance-MEF	Institutional and Financial Strengthening	Help the country's efforts to build infrastructure projects that have high components of regional integration.	9		5	
Various clients	Trade and working capital financing	Provide financing for foreign trade, working capital requirements and capital goods.	94		Varied	
Various clients	Other operations	Technical cooperation and Fondeshu.	5		Varied	
<b>Total</b>			<b>633</b>	<b>25</b>		<b>2,580</b>

**Other contributions to Peru's sustainable development**

\$5 million was approved in technical cooperation for Peru in 2003, to support work in governance, competitiveness, integration and culture.

In governance, an institutional strengthening program began to train leaders and support groups in decentralization and citizenship awareness. The Ministry of Economy and Finance received help to develop new financial mechanisms to protect democratic governance. Also, CAF helped hold CADE 2003, whose main theme this year was investment-oriented institutionality.

The Andean Competitiveness Program (PAC) promoted several clusters in 2003, including the following: (a) Grapes in Ica, to help apply modern information technology and training techniques to increase productivity and volume of production for export, and to generate added employment; (b) Textiles and garments, which aim to strengthen the mechanisms that allow exporting firms to sub-contract production with smaller, local manufacturers; (c) Corporate networks for northern Peru's provinces, of the clusters of shoes in Trujillo, vegetable exports in Lambayeque, milk and by products in Catamarca and ceramics in Piura; and (d) Fresh asparagus for export, to improve its logistic chain and to measure the level of know-how. Regarding informatics, CAF has supported electronic commerce with Prompex, as well as a project for electronic government to streamline procedures in the Employment Ministry, whose results have been adopted and are to be replicated within the Program

for the Reform of the State. Lastly, in terms of removal of administrative bottlenecks, PAC, in association with the World Bank, promoted a study on Macroeconomic Barriers to Business Growth in Peru.

In integration, within the IIRSA initiative, CAF sponsored a number of projects and events aimed at the development of the Amazonian Axes.



*Above:*  
A project designed to improve the logistical network of the asparagus cluster, executed by the Polytechnic University of Valencia, Spain, within the framework of CAF's Andean Competitiveness Program (PAC).

*Besides:*  
CAF's Andean Competitiveness Program assigns high priority to the development of production networks. The photo shows a grape farm workshop, part of Peru's table grapes cluster.

In the area of cultural and community development, CAF gave support to traditional art management projects in association with the Ministry of Foreign Trade and Tourism, and sponsored instruction in orchestral and choral music, and in instrument-making techniques and skills. In Vilcashuaman (in the Department of Ayacucho) a project was started in partnership with UNESCO to increase awareness of the cultural heritage as a source for employment generation. Finally, work started to introduce the sports and local cooperation programs in 2004.



PROPATRIA

ALIDA  
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Dirección PALO VERDE

Dirección PALO VERDE





OVER THE PRECEDING FIVE YEARS (1999-2003) CAF has approved an aggregate amount of \$2,468 million in operations for Venezuela, resulting in a yearly average of \$494 million. Over the same span of years, disbursements were \$1,770 million, representing 17% of the Corporation's total.

With \$337 million disbursed in 2003, Venezuela's total portfolio\* reached \$1,289 million, distributed as follows: 92% for infrastructure; 5% to support trade and for working capital; and the remaining 3% for manufacturing and other areas of economic activity. Within the proportion disbursed for infrastructure, 35 percentage points went to transport and telecommunications, 21 percentage points to electric power, 18 points to waterworks, and another 18 to social infrastructure – mostly for education, community and social services, and health.

Year 2003 approvals were \$535 million, or 16% of CAF's total \$3,303 million. Of the amount approved, \$458 million were for government programs aimed at improving transportation, warehousing and communications, as were as the supply of electricity, natural gas and water.

Within transportation, \$358 million was assigned to improving and expanding urban infrastructure for passenger traffic. This includes support for the investment program of Inversiones Operativas de C.A. Metro de Caracas, which seeks to maintain and improve its system, and to carry out construction work for the number 4 Line project of the capital city's Metro. Also included are funds for the master plan for urban development of the city of Valencia in the State of Carabobo, more specifically for the rapid-transit system that is to serve as a catalyst for the zoning of the city.

In a different segment of the same transportation sector, CAF consolidated its support for the National Railroad Plan, which comprises a set of interconnected systems joining some of the country's most densely populated areas. In particular, financing was approved for the segment Caracas-Tuy Medio, which will communicate the capital with the Tuy valleys, helping development and improving distribution of cargo and passengers through a multi-modal transport system.

In the energy sector, Edelca's investment plan for transmission received financing for the amount of \$100 million. The plan aims to provide for the growing need of electricity, while enhancing and improving the efficiency of the country's interconnected electric power system, thereby removing the bottlenecks generated recently by the growth in industrial and residential demand.

The productive and financial system received \$76 million for the financing of their foreign trade and working capital operations.

## Other contributions to Venezuela's sustainable development

In technical cooperation, CAF approved \$1 million in 2003 for governance, competitiveness, sustainable development, integration and community development.

In partnership with George Washington University in the U.S. and Venezuela's Andrés Bello Catholic University, CAF began a training program in governance and political management, aimed at strengthening leadership and coordination capabilities nationwide. Support was also provided to the office of the mayor of the Libertador local authority, to carry out group meetings on decentralization, administrative reform and public services in the Spanish-speaking Americas.

Fund for Human Development (Fondeshu) resources were applied to finance programs to enhance technical and political skills, and to promote new organizational and management systems for communities and for local institutions, to enable them to define and develop projects and programs to increase the welfare of their communities.

\*Includes third-party portfolio, promoted and managed by CAF, and loans linked with Partial Credit Guarantees.

**Operations approved for Venezuela. Year 2003**

In US\$ Millions

Client and Executing Agency	Operation	Objective	Amount	Term (Years)	Project cost
C.A. Metro Los Teques (ML Te)	Metro Los Teques II	To provide a mass transit system that is quick and efficient to the inhabitants of Altos Mirandinos; reduce travel time between Caracas and Los Teques; and extend Line #2 of the Caracas Metro system.	100	10	462
Autonomous Institute of the State-owned Railroad (IAFE)	Railroads of Caracas and Tuy Medio	To diversify the use and increase the capacity of the overall system of inter-regional transportation; facilitate exports of non-traditional products; stabilize transportation costs and lower the dependence upon single vehicles; and strengthen commercial interchanges with the Andean Community and with Mercosur, through binational concessions with Colombia and Brazil.	100	10	1,932
C.V.G. Electrificadora del Caroní, C.A. (EDELCA)	EDELCA Transmission Lines	Addresses the growing needs for electric power, while improving the tension and raising the efficiency and reliability of the system's national interconnection grid.	100	8	324
C.A. Metro de Caracas (CAMETRO)	Caracas' Metro	To help construct and acquire the necessary equipment to finalize construction of the Line 4 Project of Caracas' Metro.	58	10	664
C.A. Metro de Valencia	Valencia's Metro	To help provide service to the city's inhabitants and serve as a catalyst for the area's basic zoning.	100	10	602
Various clients	Trade and working capital financing	Provide financing for foreign trade, working capital requirements and capital goods.	76	Varied	
Various clients	Other operations	Technical cooperation and Fondeshu.	1	Varied	
<b>Total</b>			<b>535</b>		<b>3,984</b>

The Andean Competitiveness Program (PAC) continued its support to the Network Venezuela Does Compete, which is managed by the National Counsel on Investment Promotion (CONAPRI). In that network's framework many coordination meetings and conferences were held with provincial state governments, to discuss plans for infrastructure projects, labor issues, tourism and information technology. Also, CEISoft (the Center for Excellence in Software Engineering,) which was established by CAF and the European Software Institute, completed its first round of quality-enhancement training for software development companies, and began a second round under the same dual sponsorship. PAC also initiated a project to help strengthen entrepreneurial capacity by supporting the activities of the Metropolitan University's Entrepreneurship Service and INFOEM to launch a pre-incubation format that can be implemented by Venezuela's universities. Lastly, PAC is also lending support to a project on socially significant initiatives, by highlighting two examples of competitiveness and social responsibility.

Grower participating in the integrated rural development project for cocoa-producing communities of Paria, State of Sucre. The project is sponsored by the Paria Project Foundation, with support from CAF and other local and international institutions.



In cultural and community development there were projects on traditional art management co-sponsored with Bancoex; support to a school and workshop facility in La Guaira, together with the Spanish international development agency (AECI); and, instruction in orchestral and choral music, and in instrument-making techniques and skills. In addition, jointly with the Saint Theresa Foundation and the office of the mayor of the municipality of Revenga, CAF started a rugby program as a means to train and help organize a group of troubled youngsters for their recovery. Help was also provided to the Foundation Project Paria, and to farming communities, in a project that starts with cocoa production, and builds an integrated system by incorporating activities in community savings, family asset accumulation, public health, education and culture. Finally, together with FUNDEFIR, CAF is



aiding a project for local financial organizations, named Bankomunales, which seeks to promote savings, family asset accumulation and community organization, through the expansion and consolidation of local micro-finance institutions in several of Venezuela's states.

*Upper right:*

Rugby practice as part of sports development and training for youths from low-income families, a project promoted by CAF, the Saint Theresa Foundation, and the Revenga municipality in the State of Aragua.

First graduation ceremony of the program in governance and political management, which is co-sponsored, by CAF, the Andrés Bello University in Venezuela, and the George Washington University in the U.S.







## Other shareholder countries and multinational operations

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DURING THE PERIOD (1996-2003) CAF has approved an aggregate amount of \$2,078 million in operations for countries that are Series C shareholders – that is, countries who are not members of the Andean Community – while disbursements were \$1,472 million, representing in each case 10% of the Corporation's respective totals. As of December 31, 2003, these countries' total portfolio\* reached \$584 million, or eight times that of 1996.

During 2003 CAF continued to increase its institutional and financial presence in the Series C member countries through a series of identification and programming missions, seeking a meeting of minds over priorities with country authorities. Approvals for the year reached \$452 million, and disbursements were \$128 million.

### Operations approved for series "C" countries. Year 2003

In US\$ Millions

Client and Executing Agency	Operation	Objetivo	Amount	B Tranch	Term (Years)	Project Cost
<b>Argentina</b> Ministry of the Economy and Production/Federal Planning and Public Investment Services Ministry	Program of Integration Road Corridors (Phase I)	Finance strategic works and preinvestment studies for highways and railroads along the integration corridors of the Axis Capricornio, Mercosur-Chile and the Southern los Ejes Capricornio, Mercosur-Chile Andean Axis, within the IIRSA framework.	150		10	243
<b>Costa Rica</b> Refinadora Costarricense de Petróleo (RECOPE)	Twin pipelines project "Limón-La Garita"	To partially finance the third stage of a project consisting of 123 km of double pipeline and five pumping stations.	30		12	102
Various clients	Trade and working capital financing	Provide financing for foreign trade, working capital requirements and capital goods	272	75	Varied	
Various clients	Other operations		10		Varied	
<b>Total</b>			<b>462</b>	<b>75</b>		<b>345</b>

Most noteworthy in 2003 was the start of operations with Argentina and Costa Rica. In the first case, a loan for \$150 million to the Republic of Argentina was approved to finance in part the Program for Integration Corridors – Phase I, which has impact on the physical integration within the country, as well as of it with Brazil, Bolivia and Chile. In addition, CAF established a line of credit for the Banco de Inversión y Comercio Exterior (BICE), to support Argentina's foreign trade with Andean Community countries.

In Costa Rica's case a \$30 million loan was approved for Refinadora Costarricense de Petróleo (RECOPE) to contribute to the financing of the Limón-La Garita's oil and gas pipeline, third phase. This includes 123 kilometers of oil and gas pipeline and five pumping stations. The project is also receiving financing from the Central American Bank of Economic Integration (CABEI), which is an indication of CAF's growing working relations with that important development bank.

\* Includes third-party portfolio, promoted and managed by CAF, and loans linked with Partial Credit Guarantees.

\$88 million was disbursed to Brazil for infrastructure projects and, through banking intermediaries, to finance working capital and foreign trade requirements of a number of firms. Brazil became the site of CAF's very first Field Office in a Series C member country, and as part of its inauguration, meetings were held with the authorities to review the investment projects and programs that make up the country's 2004-2007 Multi-year Plan, to enable CAF to complete the preparation of its operational program for Brazil.

An identification mission visited Paraguay to discuss with the authorities of the recently elected government some high priority infrastructure projects that could be financed by CAF, as part of its 2004 lending program to the country. Also, \$18.9 million was disbursed in the course of the year for the Transchaco highway, a key element of the physical integration infrastructure linking Paraguay and Bolivia.

*Right:*  
Integration Corridors Program. Phase I- Argentina. A part of IIRSA, this program is composed of a series of road infrastructure works along the five principal integration and development axes linking Argentina with the rest of South America.



*Left:*  
State of Rondonia's Road Network Program. Includes the paving of over 400 kms. along 15 access roads feeding into Highway BR354, and the construction of 13 bridges (IIRSA projects) fostering commercial integration between Brazil and the Andean countries.



Several projects in the area of integration infrastructure were identified in Uruguay, and are currently under discussion with country authorities and potential executing agencies. In the meantime, the highway mega-concession program is proceeding ahead with partial CAF financing. \$9,2 million was disbursed for this project in 2003.

Regarding Spain, 2003 saw the approval of operations in the amount of 407,000 euros from the Spanish Fund for Technical Cooperation, which were channeled to three projects: one regional, to promote best practices of corporate government in the Andean countries, and two for Bolivia -to improve quality control over drinking water systems, and to foster the adoption of norms to enhance the banking system's stability. In addition, a pilot project was initiated to study the feasibility of establishing strategic alliances among small and medium-sized firms from the Andean area and from Spain, as a way to further internationalize the Andean region's S&MSE.

*Below:*  
Road Infrastructure Program in the Inter-Oceanic Corridor - Panama. By upgrading the road infrastructure in this port mega-center, the program aims to improve hemispheric commerce.

Discussions were held with Mexican authorities about the selection of the most appropriate modalities for CAF's operations there, with a view to focus upcoming activities upon infrastructure projects to be built in Mexico's southeastern states, which form part of the area covered by the Puebla-Panama Plan.

In Panama, CAF is providing technical cooperation for environmental sanitation in the Bay of Panama, and has offered to provide funding for highway and electric power interconnection projects with Costa Rica. At the same time, CAF continues to provide financing for the inter-oceanic road infrastructure investment plan, which has received \$10 million in disbursements.

Five technical assistance operations were approved, for a combined total of \$338,600. Two were for Costa Rica, and one each for Brazil, Chile and Panama. Brazil has helped to conduct an international seminar on relations with the Andean Community countries. One of Costa Rica's is to help consolidate cooperation on strategic issues between Caribbean and Latin American countries; the other is for the Integration Corridor Nicaragua-Costa Rica-Panama, Atlantic Axis, that is part of the Puebla-Panama Plan. Chile's is to hold a symposium on Latin American emancipation.

Table of approved operations in 2003

In US\$ millions

	Short term	Medium term	Long term	Total CAF
<b>1. Bolivia</b>	<b>195.3</b>	<b>0.0</b>	<b>424.0</b>	<b>619.3</b>
Project, Program and Corporate Loan Execution	100.0		424.0	524.0
International Trade Operations*	92.3			92.3
Technical Cooperation and Fondeshu operations	3.0			3.0
Equity Participations				0.0
<b>2. Colombia</b>	<b>161.7</b>	<b>150.0</b>	<b>305.0</b>	<b>616.7</b>
Project, Program and Corporate Loan Execution		150.0	300.0	450.0
International Trade Operations*	157.5			157.5
Technical Cooperation and Fondeshu operations	4.2			4.2
Equity Participations			5.0	5.0
<b>3. Ecuador</b>	<b>78.6</b>	<b>0.0</b>	<b>359.7</b>	<b>438.3</b>
Project, Program and Corporate Loan Execution			359.7	359.7
International Trade Operations*	76.5			76.5
Technical Cooperation and Fondeshu operations	2.1			2.1
Equity Participations				0.0
<b>4. Peru</b>	<b>92.9</b>	<b>65.0</b>	<b>475.0</b>	<b>632.9</b>
Project, Program and Corporate Loan Execution		65.0	475.0	540.0
International Trade Operations*	87.9			87.9
Technical Cooperation and Fondeshu operations	5.0			5.0
Equity Participations				0.0
<b>5. Venezuela</b>	<b>73.8</b>	<b>3.0</b>	<b>458.0</b>	<b>534.8</b>
Project, Program and Corporate Loan Execution			458.0	458.0
International Trade Operations*	73.0	3.0		76.0
Technical Cooperation and Fondeshu operations	0.8			0.8
Equity Participations				0.0
<b>6. Other Shareholder countries</b>	<b>281.4</b>	<b>0.0</b>	<b>180.0</b>	<b>461.4</b>
• Brazil	245.0	0.0	0.0	245.0
Project, Program and Corporate Loan Execution				0.0
International Trade Operations*	245.0			245.0
Technical Cooperation and Fondeshu operations				0.0
Equity Participations				0.0
• Argentina	25.0	0.0	150.0	175.0
Project, Program and Corporate Loan Execution			150.0	150.0
International Trade Operations*	25.0			25.0
Technical Cooperation and Fondeshu operations				
Equity Participations				0.0
• Costa Rica	0.2	0.0	30.0	30.0
Project, Program and Corporate Loan Execution			30.0	30.0
International Trade Operations*				0.0
Technical Cooperation and Fondeshu operations	0.2			0.2
Equity Participations				0.0
• Mexico	1.5	0.0	0.0	1.5
Project, Program and Corporate Loan Execution				0.0
International Trade Operations*	1.5			1.5
Technical Cooperation and Fondeshu operations				
Equity Participations				0.0
• Multinational Technical Cooperation and Fondeshu operations	9.7	0.0	0.0	9.7
<b>Grand Total CAF</b>	<b>883.7</b>	<b>218.0</b>	<b>2,201.7</b>	<b>3,303.4</b>
Project, Program and Corporate Loan Execution	100.0	215.0	2,196.7	2,511.7
International Trade Operations*	758.7	3.0	0.0	761.7
Technical Cooperation and Fondeshu operations	25.0	0.0	0.0	25.0
Equity Participations	0.0	0.0	5.0	5.0
<b>Grand Total CAF (in proportion by term)</b>	<b>27%</b>	<b>7%</b>	<b>67%</b>	<b>100%</b>

\* Includes institutional strengthening operations for the financial sector





## Management's discussion of financial condition

ANNUAL REPORT 2003

IN 2003, CAF RECEIVED A RECORD US\$209 million in new capital contributions from its shareholders. Spain and Argentina formalized their participation in CAF by executing the first payments under their respective shareholder agreements.

Net profits were also a record in 2003, reaching US\$135.5 million, a 7% increase compared to 2002.

The relevance of CAF as the most important source of multilateral financing to the Andean Region was evidenced by the levels of approvals and disbursements achieved in 2003: US\$3.3 billion and US\$1.8 billion respectively. Most importantly, 67% of approvals and 86% of disbursements were directed to the financing of medium and long-term projects.

Issues in the international markets reached US\$1.5 billion for the year, including CAF's largest transaction to date: a ten-year US\$500 million bond (*Table 1*).

Table No 1

### 2003 Issues in the international markets

Date	Market	Amount in original currency of issuance (in million)	Equivalent in US\$ million
January	Dollars	US\$ 200	200
March	Condor (EMTN)	US\$ 75	75
April	Euro	EUR 100	109
May	Dollars	US\$ 500	500
November	Short-term Note Program (Spain)	EUR 500	600
December	EMTN	EUR 20	23
	<b>Total 2003</b>		<b>1,507</b>
	<b>Total 1993-2003</b>		<b>7,991</b>

CAF's ratings were ratified by all the credit rating agencies (*Table 2*). Its high credit ratings have allowed CAF to access institutional investors from the main world markets: long-term in the USA, Europe and Japan; medium-term in the same countries plus Asia and the Andean region, and short-term in the USA, Spain and the rest of Europe.

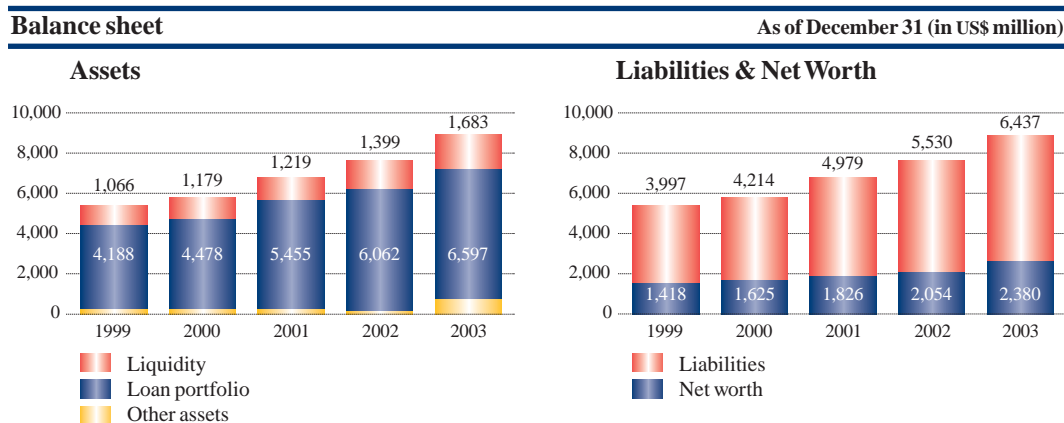
Table N°2

Ratings	As of December 31, 2003	
	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 2003, total assets were US\$8.8 billion, a 16% increase compared to the end of 2002 (*Graph 1*). Asset growth originated mostly from the loan portfolio, which at 31 December of 2003 amounted to US\$6.6 billion or 9% over the amount at the end of 2002. The other major component of assets, liquidity, totaled US\$1.7 billion or the equivalent of 19% of total assets and 29% of total borrowings.

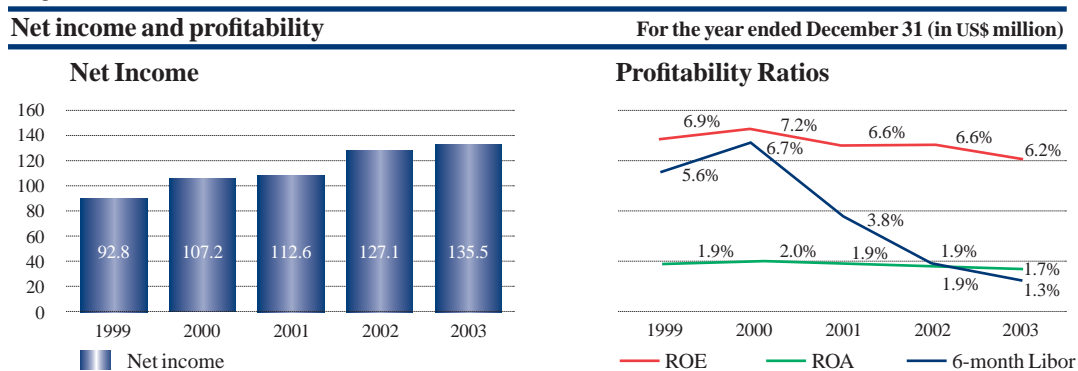
Graph N° 1



Shareholders' equity was US\$2.4 billion at the end of 2003. New capital payments from shareholders totaled US\$209 million for the year. Shareholders' equity represented 27% of total assets and 34.3% of risk-weighted assets, according to the Basle Accord standards, as of 31 December 2003.

As indicated above, net income for the year represented an increase of 7% compared to previous year, reaching a record level of US\$135.5 million. This increase is more relevant in view of the general decline of international interest rates<sup>1</sup>, with the corresponding adverse effect on net interest income. The return on equity was 6.2%, above the established benchmark of 6-month US\$ Libor (*Graph 2*). Moreover, the return on assets was 1.7% and the net interest margin was 2.5% in 2003.

Graph N° 2



## Loan portfolio

The loan portfolio was US\$6.6 billion at the end of 2003 compared to US\$6.1 billion at the end of 2002, representing an increase of 9%.

The distribution of the loan portfolio continued to be skewed toward the financing of public sector projects, which represented 88% of the total at the end of the year. From the perspective of distribution by country, the largest exposure was Colombia with 23% of the total loan portfolio, followed by Peru with 21%, Ecuador with 18%, Venezuela with 17%, and Bolivia with 13%. Others or non-Andean coun-

<sup>1</sup> CAF's average six month US\$ Libor was 1.92% for 2002 vs. 1.26% for 2003.

tries, represented 7% 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 72% of the loan portfolio at the end of 2003.

From the point of view of asset quality, the loan portfolio reflected the best performance in ten years (*Table 3*). Non-performing loans totaled US\$11 million or 0.17% of the loan portfolio, while the loan-loss provision totaled US\$210 million or 3.2% of the loan portfolio. Loan write-offs were US\$19 million for the year.

Table N°3

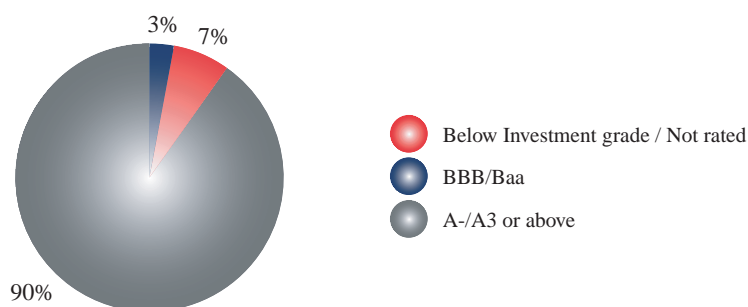
<b>Asset quality</b>	<b>In US\$ million</b>				
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Overdues	3.1	5.3	0.0	0.0	0.0
Loans in non-accrual status	40.8	36.2	33.8	29.3	10.9
Allowance for loan losses	129.1	153.8	177.0	196.3	209.8
Overdue as a percentage of loan portfolio	0.07%	0.12%	0.00%	0.00%	0.00%
Non-accrual loans as a percentage of loan portfolio	0.97%	0.81%	0.62%	0.48%	0.17%
Allowance as a percentage of loan portfolio	3.08%	3.43%	3.24%	3.24%	3.18%

### Liquid investments

At 31 December 2003, liquid investments totaled US\$1.7 billion which represented 19% of assets and 29% of borrowings. The investment portfolio was characterized by short duration, an average of 0.29 years, and good credit quality (*Graph 3*): 90% were rated A-/A3 or better, 3% 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, 2003



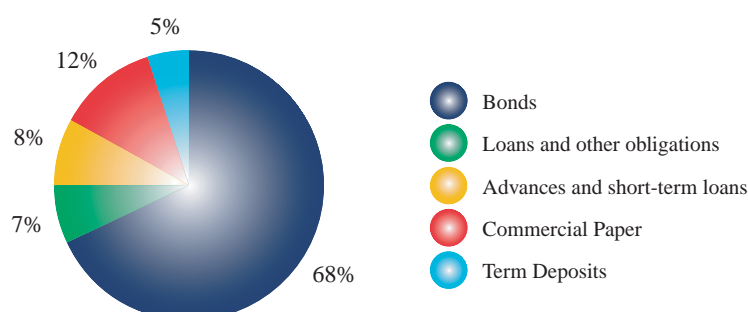
### Funding

2003 was an active year for CAF in the capital markets. The leading transactions included the largest bond offering to date: a ten-year US\$500 million bond and the first Condor bond, a placement under CAF's medium term note program directed to investors in the Andean region.

At 31 December 2003, 90% of CAF's funding came from the international capital markets. Bonds represented the main source with 68% of total funding (*Graph 4*). In addition, 20% corresponded to commercial paper and short-term loans, 7% to medium and long-term loans and lines of credit, and 5% 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, 2003



## Capital

During 2003, CAF received new capital contributions from its shareholders for a record US\$209 million. At 31 December 2003, shareholders' equity totaled US\$2.4 billion, a 16% increase compared to the end of 2002. 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 2003, all shareholders were current in their equity obligations to CAF.

Table N° 4

Capitalization ratios					
	1999	2000	2001	2002	2003
Gearing (times)	3.0	2.8	3.1	3.1	2.9
Leverage (times)	2.7	2.5	2.6	2.4	2.4
Capital / Risk Weighted Assets (BIS)	31.7%	33.2%	30.8%	31.3%	34.3%

## 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 2003, more than 99% of assets and liabilities were denominated in US\$ after swaps, and more than 95% 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 changed into these terms. The swap book totaled US\$3.9 billion at the end of 2003. 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 2003, the average life of assets was 3.6 years and the average life of liabilities was 4.2 years.



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## **CAF: an agenda for growth, competitiveness and sustainable development**

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Governance, human development and equitableness p. 81

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Internal organization management p. 89

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## CAF: an agenda for growth, competitiveness and sustainable development

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TO A GREATER OR LESSER EXTENT, every country in the region is redirecting its development model toward more egalitarian standards, with the full participation of its citizens. National agendas are many and varied, but their most common denominators are the pursuit of sustainable and inclusive growth, a long-lasting development trend, and increased competitiveness in the production of goods and services that ensures a significant participation in the global economy, and the betterment of living standards for its people. The latter is intimately related with the themes of enhanced governance, greater equitableness, the construction of social fiber, and the protection of the environment.

Some years ago, the challenges posed by the changing global context became apparent, with the rise of a society based more than ever before upon information and knowledge, and with the emergence of new constraints upon economic performance. As it became aware of these challenges, CAF began to design its own agenda for the exploration of development topics, and to prepare a strategic plan focused on areas of critical importance. CAF's agenda and plan were developed in a framework of regional cooperation and identification, with an integrated view of the upcoming adjustment process, aiming to respond to the anticipated requirements of its shareholders in a flexible, efficient, and timely manner.

Externally, CAF began to work with notable individuals from within the region as well as from outside, engaging them in a discussion of a wide-ranging set of topics. At the same time, CAF also increased its participation in a number of forums dealing with the search for concrete answers to the problems that stand in the way of sustainable development. Internally, as well, CAF tapped into the contributions and the synergy of its own professional staff, and thus began to produce a body of critical and innovative thought, through which the region's knowledge can both be applied and disseminated by means of diverse strategic programs, forums, and publications, which are described later in this report.

The task thus advanced has allowed CAF to set solid bases for its work and collaboration with its shareholder countries, and in addition, to play a leading role in the process of renovation of the agenda for sustainable regional development, and to support efficiently, in both conceptual and operational terms, the countries' progress over the long road ahead.

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### CAF's strategic programs

Its clear vision of Latin America's reality, and the need to contribute selectively and efficiently to the region's development agenda, led CAF to intensify in 2003 its participation in a number of *strategic programs*, which supplement its normal business activities with additional financial and non-financial services. Largely designed by CAF itself, these strategic programs have a regional reach and a wide scope which ranges from integration, physical infrastructure and competitiveness, through the search for social systems that are more equitable, humanitarian and participatory in a context of democratic government. Its areas of priority are currently the following:

#### ***Physical integration and sustainable logistics:***

- IIRSA – Initiative to Integrate Regional Infrastructure in South America
- The Puebla-Panama Development Plan

#### ***Competitiveness, productivity and international market penetration:***

- PAC – Andean Competitiveness Program
- PAI – Integrated Development Program for Small and Medium Enterprises
- Kemmerer Program for the Development and Integration of Financial Markets
- Program in Support of Research in Development Topics
- Corporate Government Program



### ***Governance, human development and equitableness:***

- Governance Program
- Program for Micro-financial Institutions
- Cultural and Community Development Program
- Sustainable Human Development Program

### ***Sustainable environment agenda:***

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

## **Physical integration and sustainable logistics**



In addition to benefitting the countries in which they are located, many of the infrastructure projects financed by CAF have a positive impact upon regional integration.

In 2003, almost 60% of the value of CAF's approved operations, that is US\$1,923 million, were invested in provision of physical infrastructure. Of these, \$532 million were allocated to transportation, a portion of which was assigned to sector reform. Mass-transit networks, including metros and railroads benefited from \$358 million, and \$583 million more financed infrastructure-related support to competitiveness, social investment and State Reform. These efforts' decisively contribute to the insertion of the region's economies into globalized markets, while supporting the most vulnerable populations. Our two new shareholders, Costa Rica and Argentina, each received a CAF loan for projects in the sector.

It is worth noting that the benefits of CAF-financed projects in infrastructure usually extend beyond the frontiers of individual countries, having enormous impacts on the fulfillment of our mission of promoting regional integration. CAF's vast experience and integrated vision of the sector, its shareholder base and its capacity to provide long-term funding in support of both public and private sector investments, allowed the organization to act in a firm yet flexible manner in catalyzing regional development, most notably in South America through IIRSA -as described in this report's main topic (see pages 19 to 31).

## **Competitiveness, productivity and international penetration**

It is clear that the key challenge facing the region is that of improving its competitive position worldwide, while advancing by leaps toward technology and knowledge-based production, making efficient use of available resources, and adopting policies that are conducive to the sustainability of a competitive context. In 2003 CAF contributed in a variety of ways to foster the agendas of national and regional competitiveness, placing emphasis on research activities, and promoting discussions among the public, private and economic sectors, in pursuit of new directives to respond to the challenges posed by the current economic, social, institutional and environmental context.

By emphasizing research and fostering the discussion of stakeholder views, CAF lends support to regional and national competitiveness agendas.



### **PAC – Andean Competitiveness Program**

The Andean Competitiveness Program, established by CAF four years ago, has been providing support to a number of initiatives that seek to establish a modern and productive entrepreneurial base in the Andean region. In 2003 a total of 34 projects were carried out in the five countries, focusing upon strengthening the competitiveness of clusters with significant exporting potential; aiming to improve the business and investment climate; seeking to foster innovation and the use of new technologies; and providing support to institutions that promote competitiveness at the national level.

In the realm of clusters, the projects sought to define sectoral competitiveness strategies, and to support concrete actions for their implementation, such as quality improvement to increase the exporting capacity of firms; adoption of strategic information systems, and improvement of logistic networks.

An important objective of PAC projects is to encourage enterprises and governments to incorporate the use of new information and communication technologies. Through such projects, CAF has promoted the use of e-commerce; the online training of students and professionals; and more generally, the use of technology to generate increased productivity at the firm level. Similarly, CAF has developed projects to simplify administrative procedures and to institute their electronic processing. Other efforts were aimed at establishing centers for enterprise development and pre-incubators at universities in Ecuador and Venezuela, and the first business incubators in Bolivia and Ecuador.

In the course of 2003, CAF also gave support for the strengthening of public and private sector institutions that promote competitiveness. Its main thrust was to incorporate the academic sector as a partner in the joint efforts of the public and private sectors –especially by means of coordinated networks– seeking their three-way collaboration in the design of competitiveness agendas for each country, and in the drafting of conclusions and recommendations for public sector policies that might incorporate inputs from PAC’s research efforts.

### **Program for Integrated Support to S&MSE**

Support for the S&MSE –as a significant provider of employment, and generator of non-traditional exports– is the key to reactivating the productive sector and to improving economic competitiveness. Consequently, government strategies in the region assign the highest priority to efforts in support of these companies, including but not limited to the extension of significant amounts of credit resources to the same. In a similar vein, CAF has focused its support to S&MSE in an integrated approach that includes technical assistance, equity participation, credit, clear role assignments, production chains (or clusters) and the promotion of strategic alliances.

Through its Integrated Program for Support to S&MSE, CAF establishes credit lines with financial institutions that work with firms in this sector. In addition, CAF has created the Investment and Development Fund for S&MSE (FIDE) which invests in the capital of funds that, in turn, take equity positions in such firms. The preceding activities are over-and-above CAF’s direct lending to mid-sized enterprises.

To focus the efforts of the Integrated Program for Support to S&MSE, a market study was carried out in the CAN countries, identifying the universe of qualifying firms under each respective country’s definition. Important stakeholders were also identified country-by-country, as a step in the direction of designing value-enhancing strategic alliances.

CAF also sponsored the execution of pilot projects to encourage exports by medium-size firms through strategic alliances and advisory services, and it also developed a risk-and productivity assessment system to give these firms improved access to borrowing from the banking sector. The latter effort was started in Colombia, and will be extended to offer a wider coverage and to have greater impact.

Year 2003 saw five new initiatives for strategic alliances between Spanish and Andean firms. Additionally, within the framework of CAF's agreement with Upenn's Wharton School, consulting services in marketing were effectively delivered to an Ecuadorian and a Bolivian firm, which yielded increased export sales. CAF also completed its classification of thirty Colombian S&MSE, while programming that of another forty in the first quarter of 2004.

Finally, in the course of 2003 CAF approved its first local currency financing for S&MSE, with a \$50 million equivalent loan channeled through Colombia's Bancoldex. CAF will raise the funds for this operation by issuing local currency denominated bonds in the Colombian market, for which it had sought and obtained the necessary clearances from the competent national authorities and institutions.

### **Financial and capital markets**

Through the Kemmerer Program for the Development and Integration of the Financial Markets, CAF contributes to ensure the strength and development of banking systems and capital markets in its shareholder countries, by undertaking activities and projects aimed at strengthening the sector and its regulatory and supervisory systems.

In the II Meeting of Government Experts to Harmonize Prudential Criteria in the Andean Community (AUG/2003) a technical document was approved which, once ratified by the corresponding government authorities, will serve as the basis for a joint decision within CAN to unify prudential criteria regarding capital requirements, credit and investment portfolio evaluation and classification, and arrears and provisioning standards. This fulfills the task assigned to CAF by the Advisory Council of Finance Ministers, Heads of Central Banks and Chief Economic Planning Executives of the Andean Region.

In the area of capital markets, a proposal for a standard regulation on the issue of regional securities was prepared during the II Meeting of Technical Regulators of the Securities Markets (OCT/2003). The regulation seeks to harmonize registration requirements for all issuers in any of the region's countries. The proposal is now being considered by the respective regulatory agencies.

Efforts continued in the construction of the "Andean Securities Information System" (SIBA) scheduled for operation in 2004. The system will supply information on the condition and performance of the securities markets within the region both on an individual and consolidated basis.

In order to improve the performance of regulatory agencies in both the banking and securities areas, CAF lent support to specific projects such as the Development of Standards for Securities Traders with Colombia's Securities Superintendence; contributed to the publication of a book on the evolution of banking supervision in Bolivia, with that country's Banking Superintendence; and supported the organization of Securities Market Forums with the Quito Securities Exchange. Finally, CAF continued its ongoing support to training and institutional strengthening efforts of the region's financial regulatory agencies.

### **Program in Support of Research in Development Topics**

With this program CAF aims to establish a link with local researchers engaged in the study of development topics, with a view to help them in their efforts, and at the same time to gather data of relevance to its operational agenda. 70 responses have been received annually, on average, following the initial invitation. They came from 14 different countries.

The program's second stage was completed in 2003, and a third invitation was issued, which yielded five selected research proposals. The themes covered in these proposals include industrial incentives and clusters, S&MSE financing, the effect of human capital upon growth, and the performance of regional exports. Discussion groups have been used to share the resulting reports with official policymakers, in an effort to assist their decision-making, and as a way of promoting a dialogue

between academic and governmental institutions. The reports were subsequently published in CAF's bi-annual magazine "Perspectivas". Invitations for the 2004 program have already been issued, with the main topic of "Latin American penetration of the global economy".

### **Corporate Governance Program**

In light of the growing importance of the issue of corporate governance, and its impact upon the quality of management and business performance, CAF initiated a program aimed at contributing to improve the management and leadership of productive enterprises, seeking to enhance their competitiveness and facilitating their access to financial markets for both credit and equity requirements.

In this regard, CAF took part in the preparation of a "White Paper" on principles of good corporate governance, with particular emphasis on its application in Latin America. In order to promote its development, the "Andean Corporate Governance Network" was created as a vehicle for the discussion and dissemination of the multiple topics involved, and stimulating debate there on. CAF also designed a strategy to implement best practices of corporate governance in the Andean countries, including the execution of a pilot project to implement corporate governance best practices within selected enterprises in the region. CAF will be assisted in this effort by a Spanish consulting firm, chosen on the basis of its vast experience on the subject.

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## **Governance, human development and equitableness**



CAF, acting jointly with George Washington University and notable universities in the Andean countries, continues to advance its Governance and Political Management Program. The picture shows an event in which the Catholic University of Quito, Ecuador took part.

2003 saw a persistence of problems with governance, and the resulting curtailment of many pending reforms in the countries, particularly as it pertains to long-term growth. At the same time, indicators of poverty, unemployment, income reduction and inequality of distribution remained at high levels. This situation moved CAF to keep contributing to the development of human, social and institutional capital, as essential factors for development to be sustainable.

### **Governance Program**

Within the context of integrated and sustainable development, the strengthening of governance and democratic institutions is deemed by CAF to have the highest priority. Therefore, it has set in motion a number of regional projects through its Governance Program, dealing with four specific areas: (1) Ethics and transparency for development; (2) Institutionality; (3) Decentralization and citizen participation; and, (4) Transformation leadership, involving the training of young people to develop a nation-wide, integrated vision, and to learn democratic values.

Also in 2003, CAF lent support to the execution of operations aimed at decentralizing government functions, building democratic institutions, training leaders and teams that provide support to governmental agencies, and promoting stakeholder participation in the discussion of ethics and transparency as social issues. Additionally, CAF's joint program with George Washington University on governance and political management was implemented in every country in the Andean Region.

In summary, with the support of prestigious universities, CAF has continued its efforts to enhance decentralized decision-making at the local level, and in particular to build a critical mass of professionally competent people that can handle both the political and the technical issues involved.

At the same time, CAF set in motion a program of basic tools for governance and consensus-building, which seeks to improve relations between different layers of public sector management, by enhancing the officials' abilities to deal with diverging interests as they interact with individual citizens and representatives of civil society –as must be done in free and democratic societies. Topics

covered under this program include negotiation, strategic communication, and leadership, all essential to the achievement of consensus in societies that respect diversity, where the need is recognized to negotiate agreements that guarantee a state of law, and to have a well-performing public sector.

Otherwise, CAF lent support to an integrated program for the institutional development of municipalities, which is being undertaken together with the Inter-American Agency for Cooperation and Development (AICD) of the Organization of American States, which seeks to provide technical assistance and training to local governments so as to improve their technical and administrative capabilities to provide municipal services.

On the topic of leadership, a program for transformation leadership was begun in Colombia, Venezuela and Bolivia, which has as its main objective the development of young people from different political and social strata so as to strengthen their country vision and their democratic values, thereby to improve the management of public institutions.

### **Micro-Financial institutions**

CAF has an important role to play in the microfinancial area in Latin America through the continued help that it provides to formally registered, sustainable and profit-making financial institutions in its member countries. In addition, CAF acts as a catalyst attracting new and greater local and foreign investments for the micro-enterprise sector.

In 2003 CAF approved the largest amount in operations for micro-financial institutions within the last five years, and also achieved the highest disbursement level. Besides, by adding two new clients to its portfolio, CAF became the principal financing source for regulated micro-finance institutions in the Andean region.

Currently CAF has thirty client, financial institutions, in seven Latin American countries including Financiera Compartamos of Mexico, which has the largest number of clients of any regulated micro-financial institution in the region.

In addition, CAF's participation in the most relevant forums and seminars contributed to new initiatives from financial institutions and public agencies that are connected with microfinance. Thus, it co-sponsored the Sixth Inter-American Forum of Micro-enterprise, which provided opportunities for over a thousand participants from all over the world to share experiences. Three other events were also sponsored, one each in Costa Rica, Bolivia, and Ecuador, in which CAF participated directly so as to describe its programs in this field. Lastly, CAF counseled public sector institutions and financial supervisors concerning the development of microfinancial markets and regulatory topics, as part of the Corporation's efforts to contribute to the international harmonization of rules that govern the sector.

### **Cultural and Community Development Program**

CAF gave strong support to efforts to improve social capital and the strengthening of basic capacities to facilitate the empowerment and betterment of living standards of poor communities in the region. Progress was made in the design of a program of action leading to a regional strategy based in the creation of synergies, the forging of alliances with partners and operators of community development and the support of successful community initiatives with a view to its strengthening and expansion. In this regard, emphasis was oriented towards musical and sports education; community management of heritage values and local cooperation in productive sectors, organization and leadership.

In music: There was a marked increase in the number of youngsters and children participating in the workshops of CAF's Andean Conservatory (CAI), which provides technical support to performers of participating orchestras. In addition, vocal technical support was given through CAF's choir workshops as an additional tool to strengthen musical networks throughout the region.



Through its support of workshop-schools, CAF helps young people from the less-favored groups of society to obtain gainful employment by receiving training in technical tasks, especially those related to the recovery and preservation of national patrimony. In the picture, the Taller Escuela La Guaira, in Venezuela.

In patrimony: Progress was made in the promotion and strengthening of traditional art workshops in various communities in accordance with the priorities set forth for this sector by the governments of Bolivia, Colombia, Peru, and Venezuela. Additionally, in the area of fabrication of musical instruments, a second workshop was held, and support was given to improving two school workshops that provide training to youngsters in related technical endeavors.

In sports: Sports' projects in soccer were begun in Bolivia, Colombia, Peru, Ecuador, and a rugby program in Venezuela. These activities are conceived as educational and behavioral tools that can be effective instruments of social organization and community development.

In local cooperation: Community development projects were set in motion jointly with the beneficiary communities, NGO's, regional and local governments, and a variety of other public and private entities, as well as bilateral and multilateral aid institutions. These efforts were principally directed towards designing portfolios of productive projects in an all-inclusive fashion among the participants at the municipal level. Efforts were also directed towards improving production systems, strengthening basic capabilities and providing training in such areas as health, education, communal savings, and organization of communities.

Finally, the book *Nobel Peace Prizes*, was published and distributed amongst the Andean capitals, with considerable response from the public and ample coverage by the media.

### **Sustainable Human Development Program**

To improve the education sector's efficacy, equitableness, and coverage, CAF launched a new initiative called Andean Agenda for Education, aimed at forming an alliance amongst the principal news media in the Andean countries, in order to discuss the topic of education sector policies and to involve the civil society in the discussion. Thus, a strategic alliance was formed between CAF and Colombia's publishing house "El Tiempo", following a positive experience which the newspaper "El Tiempo" had with its own program called "Education as Everyone's Commitment". In 2003, the newspapers, La Prensa of Bolivia and El Nacional of Venezuela, joined the initiative.

Also under the Sustainable Human Development Program, a study was carried out about the status of science and technology in basic education within the Andean countries, that identifies successful experiences in each one.

An international seminar was held in Caracas titled, "Social Capital, Ethics and Development: the Challenges of Democratic Governments" (June, 2003), organized by the Universidad Metropolitana and the IADB with support from CAF, the Ministry of Education of Venezuela, and the government of Norway. Finally, the book "Social Capital: Key to an Integrated Development Agenda", was published.

### **Management of resources for poverty alleviation**

In 2003, CAF continued its management of the resources from the International Fund for Agricultural Development (IFAD), administering loans and supervising projects that help to alleviate hunger and reduce poverty in the region. More specifically, it oversaw 15 rural projects in eight countries (Bolivia, Colombia, Peru, Venezuela, Argentina, Panama, Nicaragua and Honduras), beneficiaries of loans worth approximately \$230 million.

A CAF and IFAD meeting was held in Caracas, Venezuela to develop a matrix of competencies for both institutions. Subsequently, on the basis of the agreements made in the said meeting, these institutions held a second encounter on information and knowledge for the eradication of rural poverty (Lima, September 2003). At this second meeting, they sought to develop new concepts and strategies for IFAD-sponsored projects in Latin America and the Caribbean. The meeting also provided CAF

with good opportunities to identify new ways of collaborating and coordinating its work with IFAD.

Also this year, CAF and IFAD signed a technical assistance financing agreement covering the third phase of the Regional Program in Support of the Indigenous People of the Amazonian Basin (PRAIA Phase III), to be executed over a period of three years. The overall effort has already spanned eleven years of continuous work aimed at creating conditions and opportunities for the survival and cultural preservation of these people.

In its first two phases, PRAIA has helped over 141 projects in 53 indigenous villages, coordinating efforts and joining experiences with those of other development agencies. The third phase will seek to add greater value to the social, environmental and economic contributions that these people make through their knowledge and culture. The program has had a significant catalytic effect attracting matching funds in excess of the sums contributed by IFAD and CAF.

## Sustainable environment agenda

CAF's Sustainable Environment Agenda is designed to promote responsible, sustainable and productive utilization of the region's natural resources, aimed both at recognizing the value of conservation and that of environmental businesses and markets.

Important advances were made in 2003 to incorporate environmental and social management into CAF's operations. On the one hand, the supervision of environmental and social conditions was added into CAF's project cycle, and on the other hand, the Social Environmental Investment Manual for Transmission Lines was completed and a parallel manual begun for highways and other transportation projects. These instruments represent important tools for the design of budgets to finance the handling and management of social-environmental issues in CAF's operations.

Continued follow-up of environmental and social conditions of CAF operations have been put in place through the recently designed Information System for Environmental Management (SIGA) and the new Evaluation tool for Environmental, Labor and Social Performance (EGALS) addressed to private sector operations.

A web-based program, Condor, which provides a preliminary planning and evaluation tool of the environmental and social impact in infrastructure projects, was upgraded to its second version, by means of an agreement with the NGO Conservation International. This new version incorporates a standardized database, common for all Andean countries, which will allow public and private institutions to exchange information and to gauge the environmental and social impact of projects throughout the region.

## Latin-American Carbon Program – PLAC

PLAC was established in 1999 with the mission of helping governments and the private sector in CAF's shareholder countries to take advantage of the opportunities afforded by the competitive carbon market. In 2003, the program incorporated several new projects into its portfolio throughout the Andean countries, Brazil and Central America.

Currently, the portfolio is made up of eight projects in various stages of progress, which absorb approximately 50% of the commitments undertaken by CAF with the government of the Netherlands under the facility agreement between them.

A meeting on leadership and competitiveness in Latin American markets for the reduction of emissions, highlighting the fundamental role of government authorities, was held in Cartagena de Indias, Colombia (August 2003). The encounter, which was coordinated by CAF, was aimed at consolidating the views of regional institutions that oversee climatic changes. It served to conduct discus-

Through a variety of programs CAF fosters responsible, sustainable and productive utilization of the region's natural capital. For this reason, every one of its operations incorporates socio-environmental management criteria.



sions about recent changes in the international context for this emerging market, as well as changes in regulatory frameworks and advances in important international negotiations.

Also within PLAC, CAF gave support to the local authorities of Guayaquil, Ecuador and Valencia, Venezuela to prepare their environmental statements for presentation to the Global Environment Fund (GEF) regarding mass transit projects under development in their municipalities with CAF financing.

### **Biodiversity Program – BioCAF**

The overall objective of this program is to promote conservation and sustainable utilization of strategic ecosystems, biodiversity and genetic resources through the fostering of investments and the trade in goods and services.

This year, a presentation was made to the Global Environment Fund (GEF), proposing to obtain CAF resources in support of bio-trade in the region through a project called Biodiversity-Based Business in the Andean Region.

Another important activity consisted of the organization and follow-up to the workshops to prepare business plans for biodiversity firms held in Brazil, Colombia, Ecuador, Peru, Bolivia and Venezuela (September-October 2003). The workshops were organized jointly by CAF, the World Resources Institute, and UNCTAD's Biotrade Initiative, in preparation for the upcoming Andean Forum for Investors in New Ventures for Biodiversity to be held in Lima, Peru in June 2004. The workshops involved the participation of 50 firms that deal in businesses that rely upon the sustainable utilization of biodiversity.

In Santa Cruz, Bolivia, CAF and the General Secretariat of the Andean Community organized a workshop titled Tools for the Protection of Indigenous Knowledge Systems on Biodiversity (August 2003). It was attended by indigenous experts from the whole region, who shared their traditional knowledge and made it accessible for use by others.

As an aid for Andean countries' experts to participate in the negotiation of biodiversity-related issues, CAF helped to publish a proposal on key aspects in biodiversity, access to genetic resources and traditional knowledge.

Also this year, CAF, together with ECLA, began the distribution of a study on markets and development capabilities of biotechnology in the Andean countries, aimed at generating and developing participation in the biotechnological market at the regional, national and international levels. Lastly, CAF supported the study, Legal, Institutional and Economic Aspects of the Implementation of Appendix II of CITS. This study contains an analysis of the current status in Argentina, Bolivia, Colombia, Ecuador, Paraguay, Peru and Venezuela for the purpose of advancing the implementation of this agreement.

### **Sustainable Development Program for Financial Institutions**

CAF created this program to highlight the importance of sustainable development as a topic for the financial sector, clarifying the risks involved and the opportunities inherent in new markets and services arising from environmental considerations.

A series of awareness gatherings to discuss opportunities and risks for the financial sector, stemming from environmental aspects, were held in Bolivia, Colombia, Peru and Venezuela under the joint sponsorship of CAF, the foundation Futuro Latinoamericano of Ecuador and Costa Rica's, INCAE, in collaboration with partner organizations in the respective countries: in Colombia, the Consejo Empresarial Colombiano para el Desarrollo Sostenible (CECODES); in Peru, the Asociación Latinoamericana de Instituciones Financieras (ALIDE); in Bolivia, Global Consultores en Desarrollo Sostenible (Global CDS); and the Banker's Association in Venezuela. The meetings gathered some 150 participants from private financial institutions, development banks, savings and loan institutions, bankers' associations, government agencies and NGO's.



## Exchange and cooperation in the environmental area

To contribute to the strengthening of environmental management, and to foster cooperation in this area, CAF's Sustainable Development Department sponsored the following events:

- *Andean Workshop for the Management of Fauna and Wild Flora Flora* (June 2003), held in Villa Leyva, Colombia, organized by the Alexander Von Humboldt Institute, the Ministry of the Environment, CITES, TRAFFIC, and CAF. The event was attended by local communities and business representatives from the various Andean countries interested in developing flora and fauna projects. The outcome was the publication of a book, "Guidelines for the Sustainable Management of Natural Resource Utilization Systems, *in situ*."
- *First Fair of Environmentally Friendly Products and Services of Biodiversity – Bio-Expo Colombia 2003* (June 2003) was

organized by the Regional Autonomous Corporation of Quindio and CAF. Its principal objective was to foster the use of sustainable biodiversity through the promotion of ecological products and green markets worldwide.

- *Sixth Latin American Conference of Environmental Units of the Transportation Sector and the Environment* (December 2003) was held in Ciudad de Panamá. Besides co-sponsoring this event with the World Bank, CAF took an active part. The organization of the event was handled by the National Environmental Authority of Panama, and was attended by technicians and executives from environmental units belonging to ministries and agencies of the public works and transportation sectors in 14 Latin American countries, as well as representatives of NGO's, consultants and academics.

## Regional Andean Program for Prevention and Mitigation of Disaster Risks (PREANDINO)

Fruitful results were evident in 2003 in the process activated by PREANDINO-CAF, both in the sub-region as within the countries, aimed at the objectives established in the mandate given by Andean Presidents to CAF: Institutional Strengthening & Capacity Building at national and sub-regional level, to cope with risks prevention and mitigation in a sustainable development vision.

Through out year 2003, Andean countries - supported by PREANDINO-CAF - focused on institutionalizing and creating the legal bases and advanced in Prevention and Mitigation Plans needed for the effective incorporation of disaster risk management in public policies.

Getting underway the inter-institutional network for disaster risk prevention (Red PREANDINO), a fundamental instrument for ensuring the sustainability of the initiatives in the sub-region. The network has proved to be an effective instrument in the objective of incorporating risk management into national, sectoral and territorial visions of sustainable development.

PREANDINO-CAF initiates execution of the Action Plan specifically aimed at strengthening Andean Committee for Disasters Prevention and Attention (CAPRADE) under Secretariat of the Andean Community (CAN) for the promotion of disaster prevention and disaster attention practices in all instances of the Andean System of Integration

## Regional promotion and dissemination of knowledge

### Seminars and events

Through participation, organization and sponsorship, in 2003 CAF contributed to a number of integration-minded meetings and seminars. Such events were sometimes related to advancing CAF's own activities and business, and sometimes to promoting the region before international forums and potential investors. Outstanding events were the following:

- *Business in the Ande* (FEB/2003). Organized jointly with the magazine Foreign Policy of Washington, D.C., it gathered public and private sector leaders, financial executives, diplomats, and managers of international corporations interested in the Andean countries. By building upon an analysis of a survey of participants' opinions, the event helped to construct a conceptual basis for the promotion of development in Latin America, with which to evaluate economic opportunities and political risks at the level of individual countries and of the region as a whole.

An important event held in the framework of the Annual Meeting of IADB's Board of Governors was a CAF-sponsored forum in which cabinet ministers, distinguished financial personalities and international editors were given of the opportunity to reflect upon the political and economic challenges that face Latin America in light of the globalized economy.



- *Political and Economic Prospects and Challenges for Latin America* (MAR/2003). In a strategic partnership with Merrill Lynch and the Banco Mercantil de Venezuela, CAF assembled an expert panel and a select audience from the international financial community to review the challenges facing the region as it seeks a more competitive share in the global economy. The event was held in the framework of the Annual Meeting of IADB's Board of Governors, in Milan, Italy.

- *Third Summit of Former Latin American Presidents* (MAY/2003). The topics for this summit centered upon the region's competitiveness agenda. As done in previous meetings, the documents and proceedings of this conference will be published. Of particular importance will be the incorporation of CAF's paper on the competitiveness of the Latin American economies on the previously mentioned publication, which happened to serve as the main issue for discussion. The summaries of the former presidents' deliberations, as well as the documents submitted by the ECLA, the OEI and the Ortega y Gasset Foundation, will also be included.

A select audience made up of representatives of the continent's political and financial sectors gathered during the Seventh Annual Conference on Trade and Investment of the Americas, held in Washington, D.C.

- *Seventh Annual Conference of Trade and Investment in the Americas* (SEP/2003). Organized jointly by CAF, the Inter-American Dialogue and the OAS in Washington, D.C., this conference is an important platform for discussion and analysis among politicians from the U.S. and the Andean countries, regarding bilateral and multilateral economic, political and financial relations.



- *Workshop on the Sustainability of Fiscal Policies in the Andean Countries* (JUL/2003) This event presented to CAF's Board of Directors a series of papers prepared by the corporation's country-economists, under the auspices of the Andean Competitiveness Program. The presentation was coordinated by Joaquín Vial, professor of Chile's Universidad Adolfo Ibañez, and received contributions from specialists Claudio Losser (Inter-American Dialogue), Michael Gavin (USB) and Chrystian Chymers (ECLA). The conclusion drawn from the event is that the region's fiscal situation is unsustainable because of absent corrective measures. The discussions identified factors that have caused the fiscal problems, and outlined actions available to the countries to begin to improve the situation.



- *The route to El Dorado: opportunities and challenges for tourism in the Andean region.* With a view to help draw up strategies to improve competitiveness in this sector, CAF sponsored a series of regional encounters with individuals concerned with tourism at the local and regional level.

In the meeting on Search for Physical Integration Projects in South America, participating countries presented a series of high-priority projects that will contribute both to national development and integration within the framework of the IIRSA Initiative.

- *Survey of Physical Integration Projects in South America* (AUG/2003). This encounter, organized by CAF and the BNDES, was held in Rio de Janeiro, Brazil, and was aimed at defining concrete mechanisms to help both institutions in their efforts to finance South America's physical integration.

- *Seminars for reporters, editors and media owners.* In 2003 CAF fomented dialogue between the many agents of communication, contributing to the training of 450 of the region's journalists in

topics such as economic-financial issues, use of new technology, ethics, governance, corruption and literature. The task involved a number of encounters, co-sponsored by the Diarios de America Group, the Prensa y Sociedad Institute, the Centro Iberoamericano de Comunicación y Estudios Sociales, and the Fundación para el Nuevo Periodismo Iberoamericano. In September of 2003, the latter and CAF signed an agreement that seeks to enhance the exercise of professional journalism at the level of individuals and media organizations. In October of 2003, the Ninth Euro-Latin American Communication Encounter was held in the framework of the Summit of Presidents of Spanish-speaking Countries, in Santa Cruz de la Sierra, Bolivia.

Under its agreement with the Fundación Nuevo Periodismo Iberoamericano, CAF is sponsoring a series of events to gather journalists around the theme of regional integration. In the picture, the foundation's president, Gabriel García Márquez, Nobel Prize in Literature, next to CAF's executive president, Enrique García.



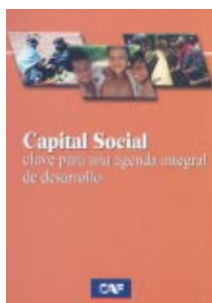
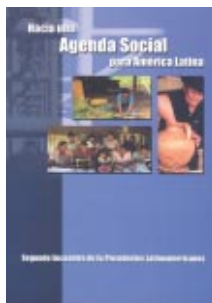
### Institutional publications

In 2003, CAF's publications focused on several topics of the changing agenda for regional development, seeking to disseminate, by various channels, the knowledge developed internally and acquired from outside the organization.

The books published this year include *Towards a Social Agenda for Latin America*, which originated with the Second Encounter of Former Latin American Presidents, and seeks to provide orientation for social policies in a globalized and competitive context; *Competitiveness and Industrial Contamination in the Andean Region*, a contribution to the sustainable management of natural resources and the adoption of environmentally effective policies; and *Social Capital: Key to an Integrated Agenda for Development*, a product of CAF's Sustainable Human Development Program, that provides practical approaches to reconciling policies on social capital with those pertaining to other sectors.

Also in 2003, the first two numbers of the biannual magazine, *Perspectivas: Análisis de Temas Críticos para el Desarrollo Sostenible*, were published by CAF to help position the institution as a leader in the international debate over public sector policies. Edited within the framework of the Program in Support of Research in Development Topics, *Perspectivas* aims to publicize the results of research undertaken by CAF's professional staff and by researchers sponsored by the institution, with the ulterior purpose of bringing the academic sector into discussions of public policy with representatives of the private sector.

To help disseminate information about the reforms taking place in the field of infrastructure in the Andean countries, CAF began in 2003 to publish a series of sectoral reports on transportation,



drinking water and sanitation, electric power and telecommunications. Prepared on the basis of field studies, the reports seek to facilitate discussions among the many stakeholders, such as: regulatory agencies, service providers, consumers and CAF itself, in order to contribute to the implementation of public sector policies that promote the development of infrastructure. Already issued reports include those covering the appraisal of telecommunications in Bolivia; electronic power in Peru, and transportation in Ecuador.



To improve productivity levels in the Andean countries, CAF published *Building El Dorado: Lessons of the Andean Competitiveness Program – PAC*, a publication that contains several topics developed within the strategic framework of this program, such as clusters, information technologies, the role of direct private investment, dependence upon natural resources and environmental development, as well as an analysis of the factors that determine competitiveness. The book comes with a CD containing twelve of the most relevant items from PAC’s first phase.

As part of its external communications, CAF’s quarterly magazine, *Sinergia Latinoamericana*, published its issue Number Ten, reaching a wide number of subscribers in both its printed and digital formats with reliable information on the various activities of CAF.

## Internal organization management

Intent on constantly adapting its structure to the challenges that need to be confronted, CAF introduced several adjustments to its organizational structure, most importantly by creating some sections.

Thus in 2003, it created the Office of Corporate Controllership, responsible for identifying and mitigating risks of any kind by designing policies, norms, systems and procedures, where necessary, and by verifying that they are effectively in place when established by other units.

CAF also created the Department of Cultural and Community Development, in order to better contribute to cultural and community development through a strategy that strengthens the sense of identity, organizing capacity, self-worth and ability to present coherently the demands of the less privileged segments of the population. Also created was the Department of Sectoral Policies for Infrastructure, which provides advisory services with in regard to central policies, institutional development and regulation to CAF’s clients in this sector.

CAF , seeking to align the management of related areas to increase the competitiveness of its products and services, it has joined two departments to create one of Corporate Secretariat and Communications.

Finally, this year CAF’s representation office in Brasilia began operations as a response to the growing relationship and significant backing received by the institution from Brazil to advance the development and consolidation of its strategic objectives, and particularly its support for regional integration.

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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.

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### CAF's clients

CAF makes available its products and services 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.

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### 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 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 micro-financial 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 investment 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 individual 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.

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## **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.

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## **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 Corporate 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.

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## **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.

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## **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 Fund for Human Development (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.





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## Financial statements

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## 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, 2003 and 2002, 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, 2003 and 2002, 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 30, 2004  
Caracas, Venezuela



## Balance sheets

Corporación Andina de Fomento

Annual Report 2003

### Balance sheets. December 31, 2003 and 2002

(In thousands of U.S. dollars)

Assets	Note	2003	2002
Cash and due from banks		2,452	1,740
Deposits with banks	2	700,743	702,139
Securities purchased under resale agreements		25,000	25,000
Marketable securities			
Trading	3	637,859	540,482
Held-to-maturity	3	317,004	129,595
Loans	4	6,597,243	6,062,407
Less allowance for losses	4	209,766	196,344
Loans, net of allowance for losses		6,387,477	5,866,063
Equity investments	5	115,027	117,228
Interest and commissions receivable		135,201	143,172
Property and equipment	6	10,331	9,881
Other assets	7	486,523	48,888
<b>Total assets</b>		<b>8,817,617</b>	<b>7,584,188</b>
<b>Liabilities and Stockholders' Equity</b>			
Deposits	8	278,172	228,425
Commercial paper	9	673,210	501,021
Advances and short-term borrowings		465,985	546,432
Bonds	10	4,291,999	3,278,462
Borrowings and other obligations	11	418,517	463,745
Accrued interest and commissions payable		98,177	106,137
Accrued expenses and other liabilities	12	211,401	406,244
<b>Total liabilities</b>		<b>6,437,461</b>	<b>5,530,466</b>
Subscribed and paid-in capital (authorized capital US\$5,000 million)		1,318,555	1,170,520
Additional paid-in capital		173,460	112,094
Reserves		752,608	644,002
Retained earnings		135,533	127,106
<b>Total stockholders' equity</b>	13	<b>2,380,156</b>	<b>2,053,722</b>
<b>Total liabilities and stockholders' equity</b>		<b>8,817,617</b>	<b>7,584,188</b>

See accompanying notes to the financial statements.

## Statements of income

Corporación Andina de Fomento

Annual Report 2003

### Statements of income. Years ended December 31, 2003 and 2002

		(In thousands of U.S. dollars)	
	Note	2003	2002
Interest income			
Loans	1(f)	279,085	292,907
Investments and deposits with banks	1(e)	25,737	28,513
Loan commissions	1(f)	22,244	20,542
<b>Total interest income</b>		<b>327,066</b>	<b>341,962</b>
Interest expense			
Deposits		3,065	6,420
Commercial paper		5,816	9,823
Advances and short-term borrowings		7,289	12,028
Bonds		103,692	97,780
Borrowings and other obligations		9,894	14,840
Commissions		7,496	7,693
<b>Total interest expense</b>		<b>137,252</b>	<b>148,584</b>
Net interest income		189,814	193,378
Provision for loan losses	4	25,250	41,500
Net interest income, after provision for loan losses		164,564	151,878
Non-interest income			
Other commissions		3,307	10,327
Impairment charge for equity investments	5	(3,133)	(5,062)
Dividends and equity in earnings of investees		5,094	4,468
Other income		2,687	1,054
<b>Total non-interest income</b>		<b>7,955</b>	<b>10,787</b>
Non-interest expenses			
Administrative expenses		34,783	32,805
Other expenses		2,203	2,754
<b>Total non-interest expenses</b>		<b>36,986</b>	<b>35,559</b>
<b>Net income</b>		<b>135,533</b>	<b>127,106</b>

See accompanying notes to the financial statements.

## Statements of stockholders' equity

Corporación Andina de Fomento

Annual Report 2003

### Statements of stockholders' equity. Years ended December 31, 2003 and 2002

(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
<b>Balances at December 31, 2001</b>		<b>1,073,330</b>	<b>89,158</b>	<b>385,845</b>	<b>168,820</b>	<b>554,665</b>	<b>108,437</b>	<b>1,825,590</b>
Capital increase	13	57,575	62,637	-	-	-	-	120,212
Stock dividends	13	39,665	(39,665)	-	-	-	-	-
Treasury stock	13	(50)	(36)	-	-	-	-	(86)
Net income		-	-	-	-	-	127,106	127,106
Appropriated for general reserve	13	-	-	78,437	-	78,437	(78,437)	-
Appropriated for reserve pursuant to Article No. 42 of by-laws	13	-	-	-	10,900	10,900	(10,900)	-
Allocations to stockholders' funds	14	-	-	-	-	-	(19,100)	(19,100)
<b>Balances at December 31, 2002</b>		<b>1,170,520</b>	<b>112,094</b>	<b>464,282</b>	<b>179,720</b>	<b>644,002</b>	<b>127,106</b>	<b>2,053,722</b>
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)
<b>Balances at December 31, 2003</b>		<b>1,318,555</b>	<b>173,460</b>	<b>560,088</b>	<b>192,520</b>	<b>752,608</b>	<b>135,533</b>	<b>2,380,156</b>

See accompanying notes to the financial statements.

## Statements of cash flows

Corporación Andina de Fomento

Annual Report 2003

### Statements of cash flows. Years ended December 31, 2003 and 2002

(In thousands of U.S. dollars)

	Note	2003	2002
Cash flows from operating activities -			
Net income		135,533	127,106
Adjustments to reconcile net income to net cash provided by (used in) operating activities -			
Provision for loan losses	4	25,250	41,500
Impairment charge for equity investments	5	3,133	5,062
Equity in earnings of investees		(3,388)	(1,861)
Amortization of deferred charges		2,330	1,889
Depreciation of property and equipment	6	2,360	2,124
Provision for employees' severance indemnities and benefits		3,877	3,801
Provision for employees' savings plan		2,115	1,664
Net changes in operating assets and liabilities			
Securities purchased under resale agreements		-	(25,000)
Net loss on sale of trading securities	3	(205)	1,413
Severance indemnities paid or advanced		3,319	(453)
Employees' savings plan paid or advanced		(423)	(485)
Trading securities	3	(97,377)	(169,188)
Interest and commissions receivable		7,971	(9,991)
Other assets		(11,297)	(5,828)
Accrued interest and commissions payable		(7,960)	9,573
Accrued expenses and other liabilities		677	3,812
<b>Total adjustments and net changes in operating assets and liabilities</b>		<b>(69,618)</b>	<b>(141,968)</b>
<b>Net cash provided by (used in) operating activities</b>		<b>65,915</b>	<b>(14,862)</b>
Cash flows from investing activities			
Purchases of held-to-maturity securities	3	(771,934)	(663,172)
Maturities of held-to-maturity securities		584,525	771,583
Loan origination and principal collections, net	4	(542,472)	(629,547)
Equity investments	5	2,456	(277)
Purchases of property and equipment	6	(2,780)	(2,304)
Net cash used in investing activities		(730,205)	(523,717)
<b>Carried forward</b>		<b>(664,290)</b>	<b>(538,579)</b>

## Statements of cash flows

Corporación Andina de Fomento

Annual Report 2003

continued

### Statements of cash flows. Years ended December 31, 2003 and 2002

(In thousands of U.S. dollars)			
	Note	2003	2002
<b>Brought forward</b>		<b>(664,290)</b>	<b>(538,579)</b>
Cash flows from financing activities			
Net (decrease) increase in deposits		49,747	(299,845)
Net change in securities sold under repurchase agreements		-	(33,958)
Net increase in commercial paper		172,189	9,350
Net decrease in advances and short-term borrowings		(80,447)	(123,847)
Proceeds from issuance of bonds	10	912,460	1,354,435
Repayment of bonds	10	(528,997)	(326,141)
Proceeds from borrowings and other obligations	11	69,924	102,146
Repayment of borrowings and other obligations	11	(122,171)	(150,417)
Allocations to stockholders' funds	14	(18,500)	(19,100)
Proceeds from issuance of shares	13	209,401	120,126
<b>Net cash provided by financing activities</b>		<b>663,606</b>	<b>632,749</b>
Net (decrease) increase in cash and cash equivalents		(684)	94,170
Cash and cash equivalents at beginning of year		703,879	609,709
Cash and cash equivalents at end of year		703,195	703,879
Consisting of :			
Cash and due from banks		2,452	1,740
Deposits with banks		700,743	702,139
		703,195	703,879

See accompanying notes to the financial statements.

## Notes to financial statements

Corporación Andina de Fomento.

Annual Report 2003

(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 21 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.

#### (c) Foreign Currency Transactions

Transactions in currencies other than U.S. dollars are translated at exchange rates prevailing on the international market at the dates of the transactions. Foreign currency balances are translated at year-end exchange rates. Any gains or losses on foreign exchange including related hedge effects are included in other 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, 2003 and 2002 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. Such amounts have been reclassified in the 2002 financial statements to conform with the presentation in 2003.

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. In developing this estimate the Corporation must necessarily rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors and developments affecting sovereign borrowers, specific companies, industries or single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The impaired loan allowance is measured on a loan by loan basis generally using the present value of expected future cash flows discounted at the loan's effective interest rate.

### **(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 man-

ner 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

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

(In thousands of U.S. dollars)

	December 31,	
	2003	2002
U.S. dollars	688,900	690,959
Other currencies	11,843	11,180
	<b>700,743</b>	<b>702,139</b>

## (3) Marketable Securities

### Trading Securities

A summary of trading securities follows:

(In thousands of U.S. dollars)

	Amount	Average maturity (years)	Average yield%
<b>At December 31, 2003</b>			
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	1.60	1.82
	<b>637,859</b>	<b>1.42</b>	<b>1.71</b>
<b>At December 31, 2002</b>			
U. S. Treasury Notes	39,503	1.09	1.62
Bonds of non-U.S. governments and government entities	265,889	1.81	2.66
Financial institutions and corporate securities	235,090	1.98	2.12
	<b>540,482</b>	<b>1.83</b>	<b>2.35</b>

Trading securities include net unrealized gains of US\$236 and US\$150 at December 31, 2003 and 2002, 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
<b>At December 31, 2003</b>				
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
	<b>317,004</b>	<b>614</b>	<b>(1,376)</b>	<b>316,242</b>
<b>At December 31, 2002</b>				
Bonds of non-U.S. governments and government entities	49,401	12	(1,542)	47,871
Financial institutions and corporate securities	80,194	-	(352)	79,842
	<b>129,595</b>	<b>12</b>	<b>(1,894)</b>	<b>127,713</b>

Held-to-maturity securities mature as follows:

(In thousands of U.S. dollars)

	December 31	
	2003	2002
<b>Remaining Maturities</b>		
Less than one year	258,099	100,470
Between one and two years	24,266	29,125
Between two and three years	27,989	-
Between three and four years	-	-
Between four and five years	6,650	-
	<b>317,004</b>	<b>129,595</b>

#### (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
<b>At December 31, 2003</b>							
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							<b>6,597,243</b>
<b>At December 31, 2002</b>							
Cartera de créditos	662,089	1,502,427	1,120,236	1,278,653	1,072,644	426,533	6,062,582
Fair value adjustments on hedging activities							(175)
Carrying value of loans							<b>6,062,407</b>

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, 2003 and 2002, loans in other currencies were granted for an equivalent of US\$733 and US\$3,345, respectively, principally in euro and yen. At December 31, 2003 and 2002, loans include fixed interest rate loans of US\$258,755 and US\$268,803, respectively.

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

(In thousands of U.S. dollars)

	December 31,			
	2003		2002	
	Amount	Average yield (%)	Amount	Average yield (%)
Loans	6,593,226	4.46	6,062,582	4.93

Loans by industry segments are as follows:

(In thousands of U.S. dollars)

	December 31,			
	2003	%	2002	%
Agriculture, hunting and forestry	281,334	4	318,703	5
Exploitation of mines and quarries	33,886	1	4,000	1
Manufacturing industry	189,305	3	251,083	4
Supply of electricity, gas and water	1,016,861	15	1,162,714	19
Transport, warehousing and communications	2,397,971	36	1,835,405	30
Commercial banks	463,826	7	500,976	8
Development banks	445,296	7	589,103	10
Social and other infrastructure programs	1,301,136	20	1,339,502	22
Other activities	463,611	7	61,096	1
	<b>6,593,226</b>	<b>100</b>	<b>6,062,582</b>	<b>100</b>

Loans mature as follows:

(In thousands of U.S. dollars)

	December 31,	
	2003	2002
<b>Remaining maturities</b>		
Less than one year	1,184,353	757,684
Between one and two years	1,099,119	741,574
Between two and three years	1,000,321	707,041
Between three and four years	774,306	813,628
Between four and five years	636,640	765,172
Over five years	1,898,487	2,277,483
	<b>6,593,226</b>	<b>6,062,582</b>

At December 31, 2003 and 2002, all loans were performing except for certain loans which were classified as impaired and were in nonaccrual status. At December 31, 2003 and 2002, the carrying value of impaired loans was approximately US\$10,921 and US\$29,344, respectively. The average recorded investment in impaired loans during the years ended December 31, 2003 and 2002 was approximately US\$22,027 and US\$38,902, respectively.

Had these loans not been in impairment status, income for the years ended December 31, 2003 and 2002 would have increased by US\$1,793 and US\$3,057, respectively. During the years ended December 31, 2003 and 2002, there were interest collections against impaired loans amounting to US\$534 and US\$353, respectively.

## Loan Participations and A/B Loans

During 2002, the Corporation received funds from commercial banks amounting to US\$12,151, for loans which were sold by the Corporation to the banks without recourse. These participations are administered by the Corporation on behalf of the participants.

Also, the Corporation administers loan participations provided to clients, and assumes the credit risk only for that portion of the loan corresponding to the Corporation. During 2002, the Corporation administered loans of this nature whereby other financial institutions provided funds amounting to US\$120,000.

## Allowance for Losses

Movements of the allowance for losses follow:

(In thousands of U.S. dollars)

	December 31,	
	2003	2002
Balances at beginning of year	196,344	176,965
Provision charged to results of operations	25,250	41,500
Recoveries	6,970	728
Loans charged off	(18,798)	(22,849)
<b>Balances at end of year</b>	<b>209,766</b>	<b>196,344</b>

## (5) Equity Investments

A summary of equity investments follows:

(In thousands of U.S. dollars)

	December 31,	
	2003	2002
<b>Direct investments in companies</b> (including investments accounted for using the equity method of US\$5,490 and US\$6,284, at December 31, 2003 and 2002, respectively)	12,413	15,855
<b>Investment funds</b> (including investments accounted for using the equity method of US\$69,406 and US\$66,436, at December 31, 2003 and 2002, respectively)	102,614	101,373
	<b>115,027</b>	<b>117,228</b>

The Corporation recorded an impairment charge of US\$3,133 and US\$5,062 for the years ended December 31, 2003 and 2002, 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,	
	2003	2002
Buildings and improvements	26,100	24,837
Furniture and equipment	5,587	4,446
Vehicles	318	239
	32,005	29,522
Less accumulated depreciation	21,674	19,641
	<b>10,331</b>	<b>9,881</b>

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,	
	2003	2002
Deferred charges	38,504	37,986
Derivative assets (see note 16)	429,710	443
Other assets	18,309	10,459
	<b>486,523</b>	<b>48,888</b>

## (8) Deposits

The Corporation's deposits of US\$278,172 at December 31, 2003 mature in 2004 (US\$228,425 at December 31, 2002 - mature in 2003).

## (9) Commercial Paper

The Corporation's commercial paper of US\$673,210 at December 31, 2003 matures in 2004 (US\$501,021 at December 31, 2002 - matures in 2003). At December 31, 2003 and 2002, the interest rates on commercial paper ranged from 1.15% to 2.18% and from 1.42% to 1.87%, respectively.



## (10) Bonds

An analysis of bonds follows:

(In thousands of U.S. dollars)

	December 31,					
	2003			2002		
	Principal outstanding At original exchange rate	At spot exchange rate	Weighted average cost, after swaps (%)	Principal outstanding At original exchange rate	At spot exchange rate	Weighted average cost, after swaps (%)
U.S. dollars	2,451,573	2,451,573	2.69	2,090,841	2,090,841	3.09
Yen	201,613	233,754	2.04	201,613	210,793	2.77
Deutschmark	-	-	-	109,709	106,686	2.39
Pounds Sterlings	272,598	310,730	3.87	272,598	280,629	4.04
Euros	1,048,475	1,337,400	2.52	916,035	991,421	2.84
	<b>3,974,259</b>	<b>4,333,457</b>		<b>3,590,796</b>	<b>3,680,370</b>	
Fair value adjustments on hedging activities		(41,458)			(401,908)	
Carrying value of bonds		<b>4,291,999</b>			<b>3,278,462</b>	

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,	
	2003	2002
<b>Remaining maturities</b>		
Less than one year	640,020	489,877
Between one and two years	724,488	640,120
Between two and three years	296,611	753,488
Between three and four years	121,725	201,613
Between four and five years	-	121,725
Over five years	2,191,415	1,383,973
	<b>3,974,259</b>	<b>3,590,796</b>

At December 31, 2003 and 2002, fixed interest rate bonds amounted to US\$3,579,175 and US\$3,210,663, respectively, of which US\$1,424,285 and US\$1,401,555, respectively, are denominated in yen, pounds sterling and euros in 2003 and in yen, pounds sterling, deutschmark and euros in 2002.

## (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,					
	2003			2002		
	<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	363,195	363,195	1.90	397,181	397,181	2.35
Deutschmark (at spot rate)	1,637	1,637	5.50	1,757	1,757	5.50
Yen	35,299	42,076	2.34	52,382	53,387	2.85
Euros (at spot rate)	9,193	9,193	6.89	10,489	10,489	7.03
Other currencies (at spot rate)	1,906	1,906	-	1,668	1,668	-
	<b>411,230</b>	<b>418,007</b>		<b>463,477</b>	<b>464,482</b>	
Fair value adjustments on hedging activities		510			(737)	
Carrying value of borrowings and other obligations		<b>418,517</b>			<b>463,745</b>	

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, 2003 and 2002, there are fixed interest-bearing borrowings and other obligations amounting to US\$33,739 and US\$40,169, respectively.

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

(In thousands of U.S. dollars)

	December 31,	
	2003	2002
<b>Remaining maturities</b>		
Less than one year	82,276	119,495
Between one and two years	83,213	79,914
Between two and three years	48,027	82,587
Between three and four years	46,300	42,928
Between four and five years	34,498	35,034
Over five years	116,916	103,519
	<b>411,230</b>	<b>463,477</b>

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

At December 31, 2003 and 2002 there were unused term credit facilities amounting to US\$63,300 and US\$80,000, respectively.

## (12) Accrued Expenses and Other Liabilities

A summary of accrued expenses and other liabilities follows:

(In thousands of U.S. dollars)

	December 31,	
	2003	2002
Employees' severance indemnities, benefits and savings plan	31,292	25,366
Derivative liabilities (see note 16)	107,688	312,334
Deferred income (including US\$51,633 in 2003 and US\$46,914 in 2002 of loan commissions, net of certain direct origination costs)	67,872	62,319
Other liabilities	4,549	6,225
	<b>211,401</b>	<b>406,244</b>

## (13) Stockholders' Equity

### Authorized Capital

The authorized capital of the Corporation at December 31, 2003 and 2002, 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, 2003 and 2002, follows:

(In thousands of U.S. dollars)

	Number of Shares			Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
<b>At December 31, 2001</b>	5	203,751	9,715	6,000	1,018,755	48,575	1,073,330
Dividends in shares	-	7,582	351	-	37,910	1,755	39,665
Issued for cash	-	8,670	2,845	-	43,350	14,225	57,575
Treasury stock	-	(10)	-	-	(50)	-	(50)
<b>At December 31, 2002</b>	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
<b>At December 31, 2003</b>	<b>5</b>	<b>241,505</b>	<b>21,006</b>	<b>6,000</b>	<b>1,207,525</b>	<b>105,030</b>	<b>1,318,555</b>

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
	Serie "A"	Serie "B"	Serie "C"	Serie "A"	Serie "B"	Serie "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
Brasil	-	-	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
	<b>5</b>	<b>241,505</b>	<b>21,006</b>	<b>6,000</b>	<b>1,207,525</b>	<b>105,030</b>	<b>1,318,555</b>

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
	<b>47,820</b>	<b>239,100</b>	<b>6,147</b>	<b>30,735</b>	<b>180,000</b>	<b>900,000</b>	<b>42,400</b>	<b>212,000</b>

Subscribed and paid-in capital is held as follows at December 31, 2002:

(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	17,400	-	1,200	87,000	-	88,200
Colombia	1	61,763	-	1,200	308,815	-	310,015
Ecuador	1	17,400	-	1,200	87,000	-	88,200
Peru	1	61,607	-	1,200	308,035	-	309,235
Venezuela	1	61,607	-	1,200	308,035	-	309,235
Brazil	-	-	5,635	-	-	28,175	28,175
Chile	-	-	254	-	-	1,270	1,270
Costa Rica	-	-	1,895	-	-	9,475	9,475
Jamaica	-	-	85	-	-	425	425
Mexico	-	-	2,713	-	-	13,565	13,565
Paraguay	-	-	977	-	-	4,885	4,885
Panama	-	-	1,073	-	-	5,365	5,365
Trinidad & Tobago	-	-	121	-	-	605	605
Uruguay	-	-	158	-	-	790	790
Commercial banks	-	216	-	-	1,080	-	1,080
	<b>5</b>	<b>219,993</b>	<b>12,911</b>	<b>6,000</b>	<b>1,099,965</b>	<b>64,555</b>	<b>1,170,520</b>

At December 31, 2002, 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	4,788	23,940	-	-	14,400	72,000	-	-
Colombia	16,744	83,720	-	-	50,400	252,000	-	-
Ecuador	4,788	23,940	-	-	14,400	72,000	-	-
Peru	10,434	52,170	-	-	50,400	252,000	-	-
Venezuela	16,900	84,500	-	-	50,400	252,000	-	-
Chile	-	-	-	-	-	-	800	4,000
Jamaica	-	-	27	135	-	-	-	-
Paraguay	-	-	79	395	-	-	-	-
Uruguay	-	-	1,700	8,500	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
	<b>53,654</b>	<b>268,270</b>	<b>1,806</b>	<b>9,030</b>	<b>180,000</b>	<b>900,000</b>	<b>2,400</b>	<b>12,000</b>

### General Reserve

The general reserve was set-up to cover possible contingencies. The stockholders decided to increase the reserve by US\$95,806 and US\$78,437 during the years ended December 31, 2003 and 2002, respectively, by appropriations from net income for the years ended December 31, 2002 and 2001, 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 2003 and 2002, it was authorized to increase the reserve by US\$12,800 and US\$10,900, from net income for the years ended December 31, 2002 and 2001, 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 2003 and 2002, the stockholders agreed to allocate US\$18,500 and US\$19,100, respectively, from retained earnings at December 31, 2002 and 2001, 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, 2003 and 2002:

(In thousands of U.S. dollars)

	Notional amount		Fair value	
	Interest rate swap	Cross-currency swap	Derivative derivados assets	Derivative derivados liabilities
<b>At December 31, 2003</b>				
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	-
	<b>2,079,890</b>	<b>1,558,186</b>	<b>429,710</b>	<b>107,688</b>
<b>At December 31, 2002</b>				
Loans	75,000	-	175	-
Bonds	1,793,275	1,500,157	-	312,334
Borrowings and other obligations	-	51,988	268	-
	<b>1,868,275</b>	<b>1,552,145</b>	<b>443</b>	<b>312,334</b>

For the years ended December 31, 2003 and 2002 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 other income in the income statement. The net effect of these changes for the years ended December 31, 2003 and 2002 was not significant.

## (17) Fair Value

The following table presents the carrying amounts and estimated fair values of the Corporations' financial instruments at December 31, 2003 and 2002. 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,			
	2003 Estimated		2002 Estimated	
	Carrying amount	fair value	Carrying amount	fair value
<b>Financial assets</b>				
Cash and due from banks	4,635	4,635	1,740	1,740
Deposits with banks	700,743	700,743	702,139	702,139
Securities purchased under resale agreements	25,000	25,000	25,000	25,000
Trading	637,859	637,859	540,482	540,482
Held-to-maturity	317,004	316,242	129,595	127,713
Loans	6,597,243	6,618,505	6,062,407	6,087,574
Equity investments	115,027	115,027	117,228	117,228
Interest and commissions receivable	135,201	135,201	143,172	143,172
Derivative contracts (included in other assets)	429,710	429,710	443	443
<b>Financial liabilities</b>				
Deposits	278,172	278,172	228,425	228,425
Commercial paper	673,210	673,210	501,021	501,021
Advances and short-term borrowings	465,985	465,985	546,432	546,432
Bonds	4,291,999	4,442,768	3,278,462	3,282,895
Borrowings and other obligations	418,517	420,316	463,745	466,058
Derivative contracts (included in accrued expenses and other liabilities)	107,688	107,688	312,334	312,334
Accrued interest and commissions payable	98,177	98,177	106,137	106,137

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,	
	2003	2002
Credit agreements subscribed	1,416,575	1,345,179
Lines of credit for foreign trade	570,270	485,841
Letters of credit for foreign trade	10,513	10,627
Guarantees	183,333	183,333
Other	53,203	49,730

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 represent partial credit guarantees for the Republic of Colombia payments of principal and interest up to the following amounts:

(In thousands of U.S. dollars)

	December 31,	
	2003	2002
Maturities		
2005	100,000	100,000
2007	83,333	83,333
	<b>183,333</b>	<b>183,333</b>

The carrying value of the guarantees at December 31, 2003 and 2002 was nil.

### (19) Subsequent Event

On January 26, 2004 the Corporation issued US\$200,000 Floating Rate Notes due January 26, 2007.

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## Governing bodies

Corporación Andina de Fomento.

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### Shareholders Assembly<sup>1</sup>

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 Directors<sup>2</sup>

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.

<sup>1</sup> The 34th meeting of the Shareholder's Regular Assembly was held on March 11, 2003.

<sup>2</sup> During 2003, the Board of Directors held four meetings: March 11, July 8, September 8 and December 9.

## Board of Directors

(as of December 31, 2003)

President of the Board of Directors (2003-2004)\*

Jaime Quijandría Salmón

Minister of Economy and Finance, Peru

### SERIE "A" Shareholders

#### BOLIVIA

Principal: Xavier Nogales

Minister of Economic Development

Alternate: Juan Antonio Morales

President of the Central Bank of Bolivia

#### COLOMBIA

Principal: Alberto Carrasquilla

Minister of Finance and Public Credit

Alternate: Jorge Humberto Botero

Minister of Foreign Trade

#### ECUADOR

Principal: Enrique Espinel R.

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: Jaime Quijandría Salmón

Minister of Economy and Finance

#### VENEZUELA

Principal: Tobías Nóbrega

Minister of Finance

Alternate: Jorge Giordani

Minister of Development and Planning

### SERIE "B" Shareholders

#### BOLIVIA

Principal: Javier Cuevas

Minister of Finance

Alternate: Roberto Camacho

Vice Minister of Public Investment and External Finance

\* Through September 2003, the Board was chaired by Mr. Raul Diez Canseco Terry, Peru's Minister of Foreign Trade and Tourism.

### **COLOMBIA**

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

### **ECUADOR**

Principal: Mauricio Pozo  
Minister of Economy and Finance  
Alternate: Mauricio Yépez  
President of the Board of Directors of the Central Bank of Ecuador

### **PERU**

Principal: Daniel Schydrowsky R.  
President of the Board of Directors of Corporación Financiera de Desarrollo (COFIDE)  
Alternate: Kurt Burneo Farfán  
Vice Minister of Finance

### **VENEZUELA**

Principal: Wilmer Castro S.  
Minister of Industry and Trade  
Alternate: Nelson Merentes  
President of Banco de Desarrollo Económico y Social de Venezuela

### **SERIE “C” Shareholders**

### **BRAZIL**

Principal: Demian Fiocca  
Minister Secretary of Foreign Affairs

### **ESPAÑA**

Titular: Rodrigo de Rato y Figaredo  
First Vice President of the Government and Minister of Economy

### **MEXICO**

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

### **COSTA RICA**

Alternate: Francisco de Paula Gutiérrez  
President of the Central Bank of Costa Rica

### **PRIVATE BANK**

Principal: Jorge Castellanos Rueda  
President of Banco Cafetero, Colombia  
Alternate: Guillermo Lasso  
Executive President of Banco de Guayaquil, Ecuador

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## Management

(as of December 31, 2003)

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**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** Jaime Reusche  
**Director, Internal Audit**

**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, Sustainable Development** María Teresa Szauer  
**Director, Economic Studies** Luis Miguel Castilla

**Corporate Vice President, Country Programs** Lilliana Canale  
**Director, Country Programs** Alexis Gómez  
**Director, Governance and Technical Cooperation** Elvira Lupo  
**Director, Regional Integration** Carlos Zannier  
**Country Representante, Bolivia** José Carrera  
**Country Representante, Brasil** José Vicente Maldonado  
**Country Representante, Colombia** Luis Palau  
**Country Representante, Ecuador** Freddy Rojas  
**Country Representante, Germán Jaramillo**

**Corporate Vice President, Infrastructure** Antonio Juan Sosa  
**Director, Energy, Water and Project Finance** Carmen Elena Carbonell  
**Director, Transport, Telecommunications and Social Infrastructure** Manuel Llosa  
**Director, Infrastructure Sector Policy** Rolando Terrazas

**Corporate Vice President, Industry and Financial Systems** Alfredo Solarte  
**Director, Corporate Business - Region I** Ricardo Campins  
**Director, Corporate Business - Region II** Manuel Malaret  
**Director, Corporate Business - Region III** Jesús Miramón  
**Director, Financial Markets Development** Camilo Arenas

**Corporate Vice President, Investment Banking and Financial Advisory Services** Peter Vonk  
**Director, Investment Banking and Financial Advisory Services** Rodrigo Navarro  
**Corporate Vice President, Chief Financial Officer** Hugo Sarmiento  
**Director, Financial Policies and International Issues** Félix Bergel  
**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

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