ANNUALREPORT2002

CORPORACIÓN ANDINA DE FOMENTO

ANNUAL REPORT 2002

CORPORACIÓN ANDINA DE FOMENTO

CAF

Content

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 18 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.

Financial highlights in 2002

- Total assets: US$ 7,584 million (US$ 6,805 million in 2001)
- Liquid assets: US$ 1,399 million (US$ 1,219 million in 2001)
- Loan and investment portfolio: US$ 6,180 million (US$ 5,575 million in 2001)
- Shareholders' equity: US$ 2,054 million (US$ 1,826 million in 2001)
- Paid-in capital: US$ 1,171 million (US$ 1,073 million in 2001)
- Net profit: US$ 127 million (US$ 113 million in 2001)

CAF's most relevant accomplishments in 2002 included:

- Focusing its strategic programs to implement an innovative agenda that promotes the integral development of Latin America, based upon competitiveness, equity, governance, environmental sustainability and regional integration.

- Achieving excellent financial and operational results, and record-level profits, despite an adverse and difficult international environment.

- Reaffirming its status as the leading multilateral source of financing for the Andean countries, and as a significant promoter of regional integration, by approving operations for $3.3 billion, while strengthening its catalytic and anti-cyclical support for the region in an especially difficult year.

- Raising a record $3,121 million in global financial markets on very favorable terms. Of this amount $1,131 million was obtained through bond issues, and approximately $2,000 million through commercial paper programs.

- Increasing its authorized capital from $3 billion to $5 billion, and obtaining commitments from its member countries for expanding its subscribed capital by $435 million.

- Increasing its number of shareholder countries to sixteen, upon the incorporation of Spain, Costa Rica and Argentina.

- Creating the new Investment Banking Vice-Presidency which improves its capacity to provide value-added services to its clients.

- Exploring new approaches to social development, based on cultural expressions such as music and artisanship, to enrich the region's social patrimony.

Letter from the Executive President

I am pleased to submit the annual report and Audited Financial Statements for fiscal year 2002.

Though facing a complex global context and adverse circumstances for Latin America –most notably, the substantial reduction in external capital flows– CAF once again played a key counter-cyclical and catalytic role, by ratifying its position as the principal source of financing for the Andean countries, while maintaining a significant presence in its remaining member countries. This was made possible thanks to the continued increments of capital contributions from shareholder countries, and competitive access to international financial markets.

Prevailing upon the above mentioned difficult conditions, CAF was able to achieve excellent operational and financial results, strengthen its drive to promote renewed development strategies, and further advance a pragmatic approach to support regional integration. The Institution played a very significant role in the improvement of physical capital, particularly in infrastructure; the development of human capital, through a novel social and cultural agenda; the safeguarding of nature's capital, by entering into important environmental agreements; the strengthening of financial capital, by promoting capital markets; and the enhancement of institutional capital, by fostering efficiency and transparency in the development process.

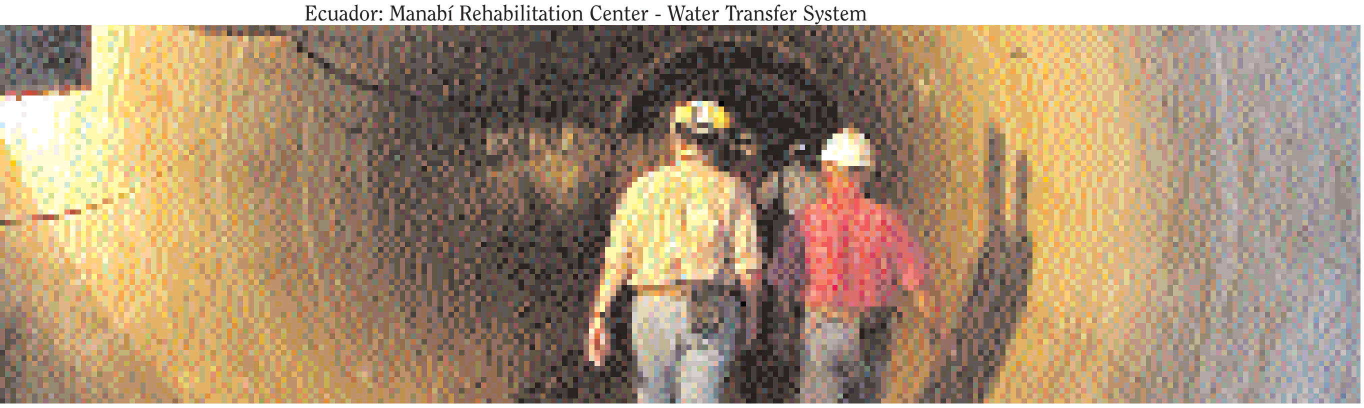
In welcoming three new shareholder countries, Spain, Argentina and Costa Rica, I wish to express our gratitude to our shareholders, members of the Board, clients and investors, for their strong commitment to CAF. I also wish to thank our qualified staff for their professionalism and dedication which have allowed us to maintain high levels of efficiency and other business indicators.

L. Enrique García
President & CEO

Bolivia: Cotapata-Santa Bárbara Highway

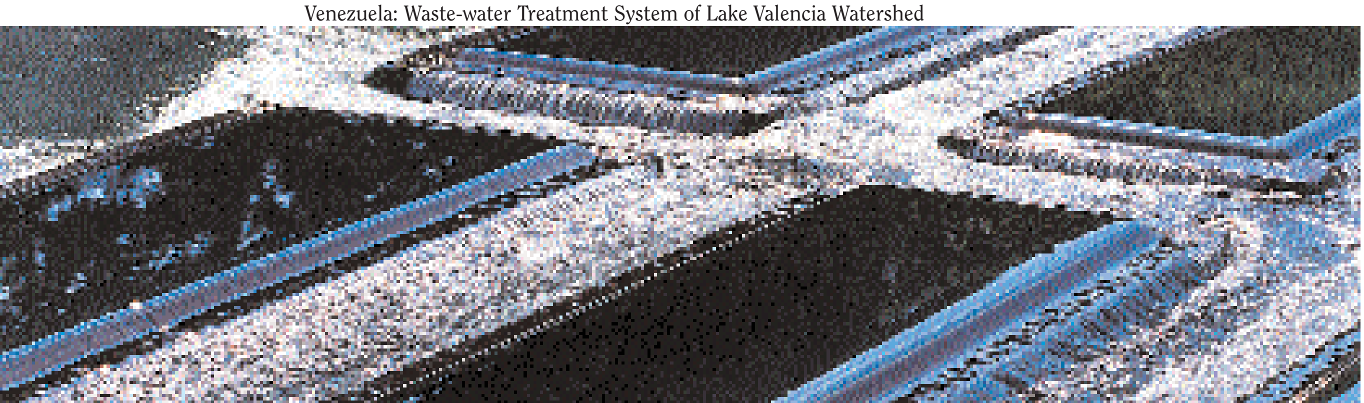
Colombia: Transmilenio Project

Ecuador: Manabí Rehabilitation Center - Water Transfer System



Perú: Cementos de Lima - Cement and Clinker Plant

Venezuela: Waste-water Treatment System of Lake Valencia Watershed



Economic context and regional integration

The year 2002 has been one of the most complex years in recent Latin American history. A series of adverse factors affected the region and accentuated the recessive trends of the last five years. In most countries, economic growth has been low, while poverty and unemployment have increased, all of which generated social and political tensions.

The international context has been very adverse for Latin America, particularly for Andean countries. This context has been characterized by a slowdown of the main global economies, a sudden reduction of capital flows towards the region, and financial volatility unleashed by the Argentinian crisis. In addition to the aforementioned external factors, there were problems regarding domestic economic policy, especially in the fiscal and financial sectors, as well as a local environment characterized by low competitiveness, institutional fragilty and political instability.

Under these circumstances, it is not surprising that the region's results have been disappointing during 2002. According to preliminary estimates, Latin America shrunk 1%, mainly due to the collapse of the Argentinian, Uruguayan and Venezuelan economies. Countries of the Andean Community also posted negative GDP growth of 1.1%, which reflects the complicated situation of this sub region.

MAIN INDICATORS	ANDEAN COUNTRIES			LATIN AMERICA *		
	2000	2001	2002(e)	2000	2001	2002(e)
Real Sector						
GDP (current millions US$)	279,233	286,072	251,181	1,807,069	1,744,781	1,579,484
Real GDP Growth (%)	3.0	1.9	-1.1	3.8	0,2	-1.0
Saving (% of GDP)	21.8	17.2	18.2	18.7	17,4	19.4
Investment (% of GDP)	17.3	17.0	16.9	20.7	19,9	20.2
Unemployment (%)	13.1	13.5	14.2	8.2	8,4	9.0
External Sector						
Exports FOB (millions US$)	59,992	53,008	52,703	326,101	313,873	317,486
excluding Venezuela	26,957	25,952	26,484	293,066	286,817	291,267
Imports FOB (millions US$)	39,199	43,422	39,575	310,047	302,304	280,316
Trade Balance (millions US$)	20,793	9,586	13,128	16,054	11,569	37,170
excluding Venezuela	3,249	-118	-811	-1,490	1,795	23,231
Current Account (% of GDP)	4.5	0.2	1.3	-2.0	-2.5	-0.8
excluding Venezuela	-0.3	-2.0	-2.6	-3.1	-3.0	-1.3
Net Internationals Reserves (millions US$)	35,105	33,203	33,197	141,184	138,551	144,755
Foreing Direct Investment (% of GDP)	3.0	2.7	3.0	3.8	3.7	2.4
Total External Dept (% of GDP)	43.4	44.3	50.1	37.1	37.8	41.8
Fiscal Sector and Prices						
Fiscal Balance NFPS* (% of GDP)	-0.3	-4.4	-3.0	-2.3	-2.5	-2.6
Primary Fiscal Balance (% of GDP)	2.5	-1.3	0.8	2.6	1.8	2.2
Inflation (%, end of period)	20.3	8.3	9.8	12.9	6.0	11.9
Banking Sector and Capital Markets						
Banking Sector Total Assets (millions US$)	76,407	77,424	72,909	681,682	687,715	664,235
Nominal Porfolio Growth (%)	-9.9	0.6	-13.6	1.1	-8.7	-10.1
Non-performing Loans (% of Total Loans)	12.1	11.7	10.3	6.8	6.0	4.9
Sovereign Bonds Spread (Basic points)	945	1,045	1,110	589	1,740	2,354

Source: Department of Economic Research CAF

*Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru y Venezuela

Nevertheless, despite the difficulties faced by the region, there are certain positive aspects that should be highlighted. One of them is related to the macroeconomic adjustment process in the presence of negative shocks, which has taken place in most countries without having to use the kind of inflationary and destabilizing measures that affected Latin America in previous decades. Indeed, most Latin American countries registered single-digit inflation rates, with the exception of the member countries of MERCOSUR and Venezuela. Four of the five Andean countries are already in this single-digit category.

Another notable feature is the stabilization of the terms of trade, in line with the observed improvement in international prices of several regional export commodities, such as oil, gold, copper and soybean, among others. To this one must add the increased market access to the United States which, through the renewal and extension of tariff preference programs, has resulted in greater expectations for trade growth in the short and medium term. Finally, the latter part of the year marked the stabilization of the principal economies of the region, as revealed by the increased monetary and financial stability in Argentina and the fact that Brazil has recovered the confidence of international markets

Important lessons can be drawn from the events that took place in 2002. Despite the reform process of the 1990s, Latin America remains vulnerable to the conditions of the world economy, mainly due to the composition of its exports, which are mostly concentrated in primary goods, to the protectionism of industrialized countries, and to the low level of domestic savings. On the other hand, weakened public finances and financial systems, as well as high level of indebtedness limited the degrees of freedom needed to face such an adverse context as the one registered in 2002. In addition, there are severe problems regarding poverty and exclusion that make it more difficult to achieve social cohesiveness, since these factors undermine the level of competitiveness, and generate political and social tensions.

Therefore, it is crucial that a renovated agenda be supported, to promote economic growth with equity, based on macroeconomic stability, microeconomic efficiency, improved competitiveness, social inclusion, environmental sustainability, institutional strengthening and greater transparency.

The international context

The international context was particularly unfavorable to Latin America during 2002. The beginning of the year was marked with uncertainty caused by the terrorist attacks of September 11th. Moreover, the US economy was affected by corporate scandals, stock market collapse, and fear of a possible conflict with Iraq. All of these factors deteriorated consumer and investor confidence, which in turn downgraded growth expectations to 2.4%.

The lack of dynamism in the North American economy coincided with a slowdown of the European Union, and with the second recessive period of the Japanese economy in the past four years. Lower global economic growth, which in the last two years has grown at the lowest rate in the last decade, had an adverse effect on the volume of world trade. According to the International Monetary Fund, world trade grew 2.9% in 2002. Preliminary data show that Latin American exports marginally increased by 1.1% during 2002. Nonetheless, its sales to United States between January and September of the same year decreased by 1.6%.

Despite the unfavorable trends regarding world trade, the prices of the region's main exports remained relatively stable, after falling in 2001, although staying between 10% and 25% below the prices observed during the early 1990's. The case of oil deserves special attention. After the Organization of Petroleum Exporting Countries (OPEC) succeeded in raising oil prices at the end of 2001 and at the beginning of 2002, these fell below the floor of the band established by the OPEC, despite the cuts led by the cartel. The main reason was the slowdown of the world economy, which led to a fall in the demand for oil. Nonetheless, since the second quarter of 2002, prices have significantly recovered lost ground. Recent events such as the possible war in Iraq, and the strike of the oil industry in Venezuela, have forced an increase in the price of crude oil to above US$30 per barrel.

On the other hand, Latin America was affected this year by a persistent reduction of external capital flows. The net flow of private resources to Latin America reached US$63.4 billion in 1998, of which US$60.8 billion consisted of Foreign Direct Investment (FDI). In 2002, the net flow of private capital fell to only US$15 billion. FDI in 2002 continued to be high (US$37.4billion, mainly concentrated in Mexico, Brazil and Chile), compensating private capital flight, which rose to US$22.6 billion.

The reduction in financial flows made it significantly more costly for Latin American countries to access international capital markets. The spread of the Latin American Emerging Markets Bond Index (EMBI) over US Treasury Bonds (which is usually associated with "country risk") was close to 700 basic points at the end of 1998; during September and October 2002 it reached over 1100 basic points. This limited the possibility of financing investment and growth in the region. However, once the electoral processes were over in various countries in the region, the spread was significantly reduced, closing the year at a level of 843 basic points.

Economic Growth and Employment

Growth perspectives for the region significantly deteriorated during 2002. From a growth expectation of 2 to 2.5% at the beginning of the year, Latin America registered an annual contraction of 1%. The profound recession in Argentina, the third largest economy in the region, pushed down the regional GDP. The severe economic and financial crisis in Argentina caused an economic contraction of 10.9% in 2002. This performance was mainly due to the collapse of domestic demand, caused by the contraction of gross capital formation and private consumption. According to preliminary data, this evolution led to historic levels of unemployment (23%) and poverty (54%).

The Brazilian economy grew only 1.5% in 2002 due to exchange rate instability, higher interest rates caused by a higher country risk, and lower trade with its MERCOSUR partners. This growth record proved to be insufficient to reduce poverty and unemployment.

Even though Chile is considered the most competitive economy of the region, it was not able to recover the rapid growth rate observed during most of the 1990s. This was due to the fall of its terms of trade and to the contraction of its trade flows. As a result, unemployment remained high, at a level of 9%. The Mexican economy, on the other hand, showed an important slowdown in 2002. GDP, which only grew 0.9% during the year, was limited by the slow pace in structural reforms, especially labor reform, and by the high commercial dependence Mexico has with the US.

The Andean region also suffered a downgrade in its growth estimates: from an initially projected 2 to 2.5% GDP growth rate, the expected growth fell to 1.1%, mainly as a response to the contraction of the Venezuelan economy, and to the slowdown observed in most countries of the sub region.

Bolivia –in the midst of stable exchange rate and prices– grew 2.6% during 2002 mainly led by the significant growth in the hydrocarbon sector. However, low competitiveness of the private sector and a persistent credit crunch continued to limit growth.

Colombia expanded to a rhythm similar to the previous year (1.6%), which was below initial official estimates. Inflation continued to fall, but low GDP growth was not able to reduce current unemployment levels, which are among the highest in the Region (17.6%). Exchange rate flexibility allowed a real currency depreciation, which favored Colombian tradables.

Ecuador grew 3.3% in 2002, performance mainly driven by the financial stability brought about by dollarization, by important projects such as the construction of the new oil pipeline for heavy crudes and by transfers sent by emigrant workers. It is worth noting that the latter has become the second source of hard currency after oil. Higher growth was restrained by insufficient progress in reforms, and by the real exchange rate appreciation, which caused higher imports, and adversely affected domestic industries.

Peru registered an economic growth of 5.2%, the highest rate in the region. Growth was accounted by larger mining production and internal demand recovery. Peru's macroeconomic stability stands out in terms of exchange rate and price level stability. However, private investment is still below the levels recorded four years ago.

Venezuela's GDP contracted by 8.9%, as a result of a drop in private investment and the severe political crisis being experienced by this country. This difficult situation also reflected in strong exchange rate pressure, which registered a significant depreciation (85.2%). Moreover, the unemployment rate increased to 18% -the highest in the Andean Region-, which was further deepened by recent domestic turmoil.

External Sector

Global economic slowdown and the subsequent terms of trade fall explain the meager performance of Latin American exports during 2002, which increased only by 1.1% with respect to the previous year. Between January and September, Latin American sales to the US contracted by 1.6%. Mexico and Central America registered an increase of 0.7% and 4.1% respectively, while Andean Countries exports to the US decreased by 13.1%.

On the other hand, intra-regional Latinamerican trade also showed an important fall (13.5%), mainly caused by a reduction in trade flows between Argentina and Brazil. Andean total exports decreased by 0.6% with respect to the previous year. However, when Venezuelan exports are excluded, the Andean exports showed an expansion of 2%. This is explained by the lower volume of oil exports observed during the year in Venezuela.

Despite the modest evolution in exports, the important fall of Latin American good imports (-7.3%), consistent with the region's lower economic growth, and the lower availability of external financial sources, resulted in a lower current account deficit of the balance of payments. This was reduced from 2.5% to 0.8% of GDP during the last year mainly due to larger trade surpluses in Venezuela and Argentina. In the latter case, the dramatic fall of imports over 50%, and the temporary relief caused by external debt default, resulted in a record surplus in the current account of more than 8% of GDP.

The capital account was affected by lower private capital flows directed to Latin America, which since 1998 have shrunk by 85%. Even though this reduction has affected all kinds of capital, the greatest fall has been registered in private capital flows net of Foreign Direct Investment (FDI), where the region went from being an importer to a net capital exporter in the same period. During 2002, Foreign Direct Investment (FDI) in Latin America decreased from 3.7% to 2.4% of GDP. A greater risk aversion, and lower foreign investor appetite, in addition to contractual insecurity and significant economic losses caused by the Argentinian crisis, explain most of the contraction in FDI flows to the region.

Nonetheless, the level of net international reserves in Latin America has remained relatively stable, because net private capital flight has been compensated by greater public sector external indebtedness from multilateral sources. In this regard, it is important to highlight the financial aid packages provided by the International Monetary Fund in the cases of Brazil and Uruguay.

Public Finance and Indebtedness

Latin America registered a slight increase in its Non Financial Public Sector deficit, from 2.5% of GDP in 2001 to 2.6% in 2002. This increase was due mainly to the higher fiscal deficit in Bolivia, Brazil, Colombia and Chile. In cases such as Colombia and Chile, lower economic growth, together with the implementation of counter-cyclical policies, explain the increase in fiscal deficit. In other countries, capital market nervousness, and greater risk aversion displayed by international investors, increased financial outlays in the public sector. In Brazil, for example, the maintenance of high real interest rates during most of the year raised the cost for internal financing.

Nevertheless, other countries in the region displayed important progress intended to correct public account imbalances. In Venezuela, important tax measures were approved to improve the fiscal situation. In Peru a series of administrative procedures were implemented to reduce tax evasion and to increase the universe of taxpayers. However, Argentina and Ecuador were not able to reach an agreement with the International Monetary Fund, mainly due to a lack of consensus to correct macroeconomic disequilibria, particularly in the fiscal and financial sectors.

Lower capital inflows into the region, and more costly access to capital markets occurred at a moment when the region's public sector exhibited growing financial needs. In some cases, due to high fiscal deficits; in others, due to a significant accumulation of debt principal payments. The region has financial needs in the range of 2.7% to 12.5% of GDP amounting to more than US$ 23 billion.

In addition, the high level of public indebtedness in the region is worrying. With the exception of Brazil, Colombia, Mexico and Venezuela, several countries in the region have a debt to GDP ratio of more than 50%, and the accumulation of debt maturities has generated rollover risks in certain countries. Currency risk and indexation mechanisms have also raised concerns among foreign investors. In the case of Brazil, for example, more than 40% of public debt is denominated or indexed to the US dollar, which increases its vulnerability in case of exchange rate volatility.

Monetary, exchange rate and financial sectors

Except for the cases of Argentina, Paraguay, Uruguay, Venezuela and Brazil, most countries in the region enjoyed single-digit inflation rates, as a result of monetary discipline, and due to weak internal demand. In most countries, monetary policy has sought to provide adequate levels of liquidity, and to maintain interest rates at levels conducive to economic recovery. In countries such as Colombia and Peru, monetary policy was managed with greater transparency, with the introduction of inflation targeting.

The most serious problems in monetary management were seen in Argentina, due to the lack of a credible anchor to fix inflationary expectations. Nevertheless, this country has recently recovered a certain degree of financial and monetary stability, thus allowing the authorities to partially release capital controls in the financial sector, through which most banking deposits have been frozen during the past year.

Even though important exchange rate volatility occurred in most countries of the region, a limited pass-through has been the norm in Argentina, Brazil and Venezuela. The subdued impact of a greater devaluation on inflation is attributed to weak internal demand in several countries, as well as to the financial controls put in place in the case of Argentina.

The unfavorable international context previously described has led to a protracted cre-

2002 MAIN INDICATORS*	Bolivia	Colombia	Ecuador	Peru	Venezuela	Argentina	Brazil	Chile	Mexico
Real Sector									
GDP (current millions US$)	7,645	81,684	24,417	56,942	80,493	103,778	524,400	66,425	634,100
GDP per capita (current US$)	880	1,869	1,968	2,133	3,166	2,745	3,001	4,256	6,238
Real GDP Growth (%)	2.6	1.6	3.3	5.2	-8.9	-10.9	1.5	2.1	0.9
Saving (% of GDP)	10.8	12.0	21.9	16.3	24.8	20.1	18.9	20.3	20.2
Investment (% of GDP)	14.8	14.2	26.7	18.3	16.0	11.5	20.6	21.1	22.6
Unemployment Rate (% of total labor force)	8.8	17.6	8.6	8.9	18.0	19.7	7.2	9.0	2.4
Population (millions)	8.7	43.7	12.4	26.7	25.4	37.8	176.6	15.6	101.7
External Sector									
Exports FOB (millions US$)	1,319	12,285	5,192	7,688	26,219	25,400	60,361	18,340	160,682
Imports FOB (millions US$)	1,520	12,153	6,196	7,426	12,280	9,000	47,235	15,827	168,679
Current Account (% of GDP)	-4.0	-2.2	-4.8	-2.0	8.8	8.6	-1.7	-0.8	-2.4
Foreing Direct Investment (% of GDP)	7.5	1.7	5.2	4.2	2.3	0.2	2.7	3.8	2.1
Total External Debt (% of GDP)	56.5	46.8	66.7	49.2	41.9	141.6	39.2	60.8	21.9
Net International Reserves (millions US$)	854	10,454	1,008	9,598	11,283	10,400	37,823	15,351	47,984
Fiscal Sector and Prices									
Fiscal Balance NFPS (% of GDP) a/	-8.7	-4.1	1.3	-2.3	-3.0	-1.5	-4.6	-0.8	-1.2
Primary Fiscal Balance (% of GDP)	-6.1	0.5	4.8	-0.3	1.2	0.7	3.9	-0.5	1.8
Inflation rate (end of period)	2.4	7.0	9.4	1.5	31.2	41.0	11.7	2.8	5.7
Nominal Exchange Rate (end-period)	7.5	2,864.8	25,000.0	3.5	1,403.0	3.4	3.5	702.0	10.4
Annual Depreciation (end-period)	9.8	25.0	0.0	1.9	85.2	236.0	52.3	4.9	13.5
Real Effective Exchange Rate Index (1997=100)	96.9	127.7	96.1	102.6	98.7	246.3	259.3	90.4	100.3
Banking Sector and Capital Markets									
Banking Sector Total Assets (millions US$)	4,504	26,828	5,789	17,614	18,174	15,000	269.122	125,216	173,472
Real Financial Return Rate b/	10.7	1.9	-4.4	2.0	3.9	-24.1	8.1	-0.1	1.4
Nominal Potfolio Growth (%)	-2.9	5.3	-10.4	0.3	4.3	-24.7	7.5	8.0	-1.8
Non-performing Loans (% of Total Loans)	17.6	9.0	26.4	7.7	7.5	30.0	5.5	1.8	4.8
Sovereign Bonds Spread	n.a	640	1,625	632	1,242	6,256	1,439	118	323
Social Indicators**									
Poverty (% of population)	64.0	54.9	60.2	49.0	48.5	30.3	36.9	20.0	42.3
Illiteracy Rate c/	12.9	8.3	8.4	10.1	7,4	3.2	14.8	4.2	8.8
School enrollment, primary (% gross) d/	87.0	112.0	113.0	126.0	91.3	120.0	154.0	106.0	114.0
Mortality Infant Rate e/	61	23	34	41	24	22	39	12	36
Life Expentancy at Birth (years)	63	72	70	69	73	74	68	76	73

Source: Central Banks, Officials Sources and CAF estimates

* Preliminary Data
a/ Non financial Public Sector
b/ Colombia and Venezuela: Domestic interest rate - inflation rate. Bolivia, Ecuador and Peru: Foreign currency interest rate + depreciation - inflation rate
** 2000 Data except Poverty 2001
c/ Percent of people ages 15 and above
d/ 2000 data except for Venezuela (1996)
e/ Under-5, per 1000 live births

dit crunch in most countries in the region. Banking credit to the private sector measured in US dollars in 2002 is lower than the level observed in 1997. In the entire region, banking credit in US dollars fell by US$79 billion. In the Andean region, banking credit to the private sector shrunk 13.6% with respect to the previous year. As a result of the economic slowdown, loan quality has deteriorated, thus increasing the non-performing loan ratios in most countries.

However, during the second semester, a slight recovery in the financial systems of the region was observed. Even though a moderate credit crunch persists, the banking system in most countries maintains abundant liquidity, a slight decrease in non-performing loan ratios and a recovery in profitability indicators.

Competitiveness

Competitiveness indicators show that Latin American countries lag behind other countries worldwide. According to the latest competitiveness rankings published by the World Economic Forum, Latin American countries ranked, on average, in the 58th position out of a sample of 80 countries and nine of them within the last 20 places. Several factors explain this disappointing performance, among others, an unstable macroeconomic environment which –despite the progress achieved during the 1990's– still affects various countries of the region. Additionaly, the limited technological capacity and difficulty to absorb and adapt new technology to the productive processes; and fragile and ineffective institutions that impose additional costs for private investment; have limited the region's competitiveness.

According to the Growth Competitiveness Index, which seeks to measure medium term potential economic growth, Chile advanced seven positions with respect to the previous year, now placed in the 20th position in the sample, thus becoming the most competitive economy in the region. In contrast, the least competitive country in the global sample was Haiti.

The Andean countries ranked on average in the 66th position and three of them were placed within the last 20 places of the sample: Venezuela, Ecuador and Bolivia ranked 69th, 73rd, and 78th respectively. On the other hand, Perú ranked 54th and Colombia 56th. Using comparable samples for years 2001 and 2002 of the Growth Competitiveness Index, one can see that Colombia actually moved up 13 places in the ranking, and Perú 4 places. On the contrary, Bolivia moved down 6 places, mainly due to a significant deterioration of its macroeconomic environment, and Venezuela fell just one place because its relatively good performance in the technology sub index partially compensated the fall in the sub indices of public institutions and macroeconomic environment. Finally, Ecuador remained stable and was able detain to the negative trend of the past years.

Poverty and Social Sectors

According to the Economic Commission for Latin American and the Caribbean (ECLAC), the estimated share of Latin Americans who are in a situation of poverty increased from 42.1% of the population in 2000 to 43.0% in 2001. These facts reflect the difficulty to reduce poverty in the last decade, given that in 1990, poverty represented 48.3%. According to ECLAC's estimates, poverty increased during the period between 2000-2001 in Bolivia, Colombia and Peru, while it decreased in Ecuador and Venezuela. With respect to the four largest economies in Latin America, poverty increased significantly during the same period in Argentina and, to a lesser extent, in Brazil and Mexico, while it decreased in Chile.

In the area of education, according to the World Bank Global Development Indicators, Latin American countries have shown important gains during the last years in reducing illiteracy rates, and in increasing net enrollment rates in primary education. In fact, the illiteracy rate dropped from 15.2% in 1990 to 11.6% in 2000, while net enrollment rate in primary education increased from 89.3% in 1990 to 97.4% in 1998, which is the last year of available information. Nevertheless, there are persistent deficiencies both in the coverage of secondary education, and in the quality of public education in general.

With respect to health, World Bank indicators reveal important achievements for Latin America and the Caribbean during the last decade. For example, the infant mortality rate for children under five years has dropped from 41.3 per thousand in 1990 to 29 per thousand in 2000. Also, there is evidence of a higher life expectancy in the region's inhabitants, which went from 67.9 years in 1990 to 70.4 years in 2000. These trends are also observed among the Andean countries.

Institutions and governance

Indicators that measure the quality of institutions and governance in Latin American countries, and Andean economies in particular, present an alarming situation. Improving the quality of institutions and governance in Latin America is imperative, especially given the critical role played by institutions in economic development.

Latin America maintains significant institutional weaknesses, which places it far behind other regions in the world. In fact, according to the latest Global Competitiveness Report, 71% of the countries in the global sample have better public institutions than the Latin American average; 69% have a greater control over corruption, and 76% a stronger rule of law.

Institutional indicators in the Andean region are more deficient than the Latin American average. According to business surveys conducted by the World Economic Forum, most Andean countries have experimented a deterioration in the rule of law, evidenced by the perception of a limited autonomy of the judicial branch. Bolivia, Ecuador and Venezuela exhibit competitive disadvantages with respect to the protection of intellectual property rights. Although terrorism and organized crime continue to impose significant costs on the management of Colombian firms, there is a favorable perception regarding the honesty of public sector bureaucracy, and the independence of the judiciary. On the other hand, corruption is strongly perceived in public utility companies in Peru. In Venezuela, there is a lack of transparency in the formulation of public policy, and little respect for private property, according to business opinion polls.

In sum, Latin America exhibited low economic growth and a higher unemployment rate in 2002, all of which generated important social and political tensions. The meager economic results observed during the year responded to external factors, such as an adverse international context, as well as to domestic problems with regard to economic policy, low competitiveness and institutional frailty. Nevertheless, despite the difficulties the region has had to face, it is worth noting that most Latin American countries were able to maintain macroeconomic stability and inflation under control, and democracy prevailed in the region. The main challenge emanating from the events in 2002 is the urgent need to recover economic growth along with social equity and environmental sustainability, to achieve an integral development in Latin America.

Regional Integration

The severe economic slowdown experienced globally in 2002 had profound repercussions upon aggregate demand and economic activity in the Latin American and Caribbean countries. Reduced total and intra-regional exports led to falling integration indicators in both absolute and relative terms for all sub-regional schemes, except the Central American Common Market.

As a result of the serious economic difficulties faced by the majority of countries in the region, integration processes and schemes were postponed, and some of their commitments went unfulfilled. At the same time, in face of the gravity of this international crisis, the countries moved to stand by their objectives and to substantially expand their collaboration.

An outstanding event this year was the celebration of an extraordinary gathering of the Andean Presidential Council (in Santa Cruz de la Sierra, Bolivia, JAN/30/02) at which the heads of state reaffirmed their commitment to create a common market and to perfect the free-trade zone. One of the important concrete advances achieved was the decision by the Republic of Peru to advance to December 31st the deadline for the elimination of duties on petroleum and fuels, and on certain agricultural products. Also, a new 4-tier (0-5-10-20%) tariff system was adopted within the context of the customs union.

During the proceedings, the Andean presidents highlighted CAF's sustained and sound financial growth, as well as its prominent role as the Andean countries' main source for international financing, and a key promoter and supporter of Latin American integration. Consequently, they mandated that the institution's authorized capital be increased from $3 billion to $5 billion, to enable CAF to deepen and expand its activities.

The Advisory Council of Ministers of Labor met in Lima on May 10 and set in motion a project to help incorporate the organized labor movement into the process of regional integration, and to more fully include social considerations in the design of policies regarding communities and institutions.

On June 17 the Foreign Affairs and the Defense ministers adopted the Commitment of Lima and the Andean Charter for Peace and Security, whose main objectives include the setting of limits and controls on expenditures destined for national defense and international security, the control of conventional weapons and transparency. It also included the establishment in the Andean Region of a peace zone, within which is prohibited the threat of use of force by one member state against another.

A very significant milestone in regional integration was reached in the Joint Meeting of Foreign Affairs, Economy, Finance, Foreign Trade and Agriculture Ministers (OCT/14/02) with the adoption of a new common external tariff schedule (AEC) that includes 62% of perfect matches between all five countries, and 38% near-matches to be resolved subsequently. This schedule is to be submitted as the basic tariff structure for the LAFTA negotiations.

As did most regional integration schemes, the Southern Common Market faced serious challenges stemming from the economic maladjustments that were experienced by its member countries under the generally adverse economic situation. Although fulfillment of some commitments had to be deferred, impacting upon the economic ties that bind the nations involved in this process, Mercosur maintained its cohesion in such trying times and even managed to make some progress. Its heads of state met on three separate occasions in 2002 in order to arrive at significant accords.

To deal with crucial aspects of the Mercosur, an extraordinary meeting of the presidents was held FEB/18/02 in Olivos, Argentina. At that meeting the Foreign Ministers signed the Olivos Protocol, which seeks to perfect the conflict resolution system for the settlement of controversies arising within the group of countries. Later on, the presidents held the XXII Meeting of the Common Market's Council (Buenos Aires, Argentina, JUL/5/02), with the presidents of Bolivia, Chile and Mexico also in attendance. CAF attended the meeting, represented by its Executive President, marking the organization's first participation at a gathering of Mercosur's Council. On this occasion the heads of state approved the expanded use of reciprocal payments and credit accords, and they also signed a limited agreement for economic complementarity in the automotive sector between the Mercosur and Mexico.

Near year's end, the presidents of the MERCOSUR countries gathered at the XXIII

Meeting of the Common Market's Council (Brasilia, DEC/6/02) and reached important agreements concerning the regulations on migration and residency requirements for citizens of the Mercosur countries, as well as for the citizens of Bolivia and Chile. They also approved certain measures of institutional strengthening for Mercosur, including the establishment of a permanent technical secretariat as of MAY/1/03. Also attending this meeting were representatives of the presidents of Colombia, Ecuador, Peru, Venezuela, Guyana and Suriname, and CAF's executive president.

A very important step for regional integration was taken in the Second Summit of South American Presidents (Guayaquil, Ecuador, JUL/26-27/02) at which the heads of state expressed their common will to continue cooperating and coordinating their actions to create a common area within which to recover the countries' shared history and cultural inheritance. The strengthening of physical connections, and the harmonization of institutional, normative and regulatory frameworks, were selected as most promising areas for regional integration.

The heads of state reaffirmed the validity and strategic importance of the Initiative for the Integration of South America's Regional Infrastructure (IIRSA) as a viable instrument for the promotion of multi-sectoral integration in the coastal areas of the Caribbean Sea and the Atlantic and Pacific Oceans, as well as reciprocally between mediterranean locations. They also emphasized the high importance they assign to the conclusion of the CAN-Mercosur negotiations, which are expected to strengthen the region's position in other international negotiations. Later, on December 6 in Brasilia, the heads of state signed the Framework Agreement for Economic Complementarity between CAN and Mercosur.

The Second Summit of Heads of State or Government was held on May 17 and 18, in Madrid, Spain. Participating countries were the 17 in Latin America, the 16 in the Caribbean, and the 15 member countries of the European Union. Presidential discussions revolved around ways in which to deepen the strategic association devised in 1999 by the First Summit in Rio de Janeiro. This time around, the meeting ended with a public statement containing a clear commitment to continue the strategic association accross the Atlantic Ocean, and with a document on the shared values and common positions of the two hemispheres, upon which rests the association.

Outside the Summit proper, the presidents of the European Union's Council and the European Commission, together with the President of Chile, expressed their satisfaction upon the conclusion of negotiations for the Association Agreement between the European Union and Chile. In the course of this year, Chile managed to complete three important free trade agreements, one each with the United States, the European Union and South Korea.

The Rio Group was actively and intensely engaged in designing policies for regional cooperation and dialogue. The Group held its XVI Meeting of Heads of State (San Jose, Costa Rica, APR/11-12/02) renewing their commitment to continue strengthening the Group as the main mechanism for dialogue and the search for political accord in Latin America and the Caribbean, and concluding with the adoption of the Declaration of San José.

The Ministers in charge of trade in the 34 countries that take part in the LAFTA negotiations held their seventh ministerial meeting (Quito, Ecuador, NOV/1/02) to examine the progress of hemispheric negotiations, and to set out directives for the fourth-and-last stage of said negotiations, which must be completed no later than in January of 2005. The most significant progress achieved under Ecuador's chairmanship includes the preparation of a second draft accord; the start of negotiations involving access to market for agricultural and non-agricultural goods, services, investment and public sector purchases; and the adoption of a program for hemispheric cooperation that was attached as an annex to the Declaration of Quito.

The Caribbean saw the XIII Conference of CARICOM Heads of State (Belice, FEB/3-5/02) and the VIII Meeting of the Association of Caribbean States' Council of Ministers (Belice, NOV/29/02).

The Central American common market has recently been the beneficiary of important support. On the one hand, Belize's incorporation in 2001 extended the institution's coverage to encompass the whole isthmus. On the other hand, the United States, its main commercial partner, has implicitly conditioned the strengthening of its economic ties to progress in the process of regional integration. At the same time, United States negotiations with the Central American countries have begun, aimed at reaching a bilateral free trade agreement.

Also worth noting is the celebration of the XII Summit of Ibero-American Heads of State and Government (Bávaro, Dominican Republic, NOV/15-16/02) in which the focus was upon tourism and the environment, as well as upon their impact on production.

Financial and operational analysis

Operations

1. Approved Operations

In 2002, Latin America in general, and the Andean region in particular, confronted a highly complex economic environment that was influenced by less-than-favorable international conditions. These conditions were aggravated by the recession in the U.S. –the principal market for Latin America's exports– as well as by fiscal and financial restrictions, and social and political tensions in several countries in the region.

The Worldwide economic slowdown has resulted in lower flows of international trade and has been less-than-helpful to growth in the Andean region. Additionally, Argentina's economic crisis, the socio-political conflict in Venezuela, and the electoral uncertainty in Brazil have adversely affected capital flows to the region, making it more difficult for the Andean countries to gain access to external financing.

Aware of its significant role as a source for new external funding to the region, CAF sought to counter the above-described adverse conditions by raising approvals to their highest level since its founding, $3,290 million (as shown in Table No.1). Thus, CAF ratified its role of principal multilateral financing source for the Andean Region and effective promoter of regional integration, while strengthening its anti-cyclical efforts to meet the growing financial needs of both public and private sector clients. The new funding is aimed at promoting integration; constructing infrastructure projects; building, expanding, and modernizing industrial plants; lending support to national financial systems; supporting corporate and foreign trade operations; and financing working capital and technical assistance requirements.

Road infrastructure projects were given high priority, with a significant proportion of new funding earmarked for the Initiative for the Regional Integration of South America (IIRSA). Far more than an idealized integration scheme, IIRSA is regarded by CAF as a project vital to the region, aimed at building an infrastructure network that will improve competitiveness along selected corridors.

Table Nº 1 Approved operations by country (in US$ Millions)

Country	1998	1999	2000	2001	2002	1998-2002
Bolivia	227	248	343	464	503	1,784
Colombia	331	736	773	819	750	3,408
Ecuador	384	268	398	356	407	1,813
Peru	953	630	451	650	498	3,182
Venezuela	565	161	271	738	762	2,497
Other countries	214	139	87	169	371	979
Total	2,673	2,181	2,323	3,197	3,290	13,664

Operations approvals by tenor

In 2002, as in prior years, long-term operations were predominant in CAF's lending. Thus, nearly 58% of approvals were for a term of 5 years or longer, highlighting CAF's commitment to operations with longer gestation periods, which are typical of regional integration projects that it seeks to promote. The remaining 42% was split about evenly between medium-term and short-term operations, as shown in *Graph Nº 1* and *Table Nº 2*.

Graph Nº 1 Approved operations by tenor (in US$ Millions)

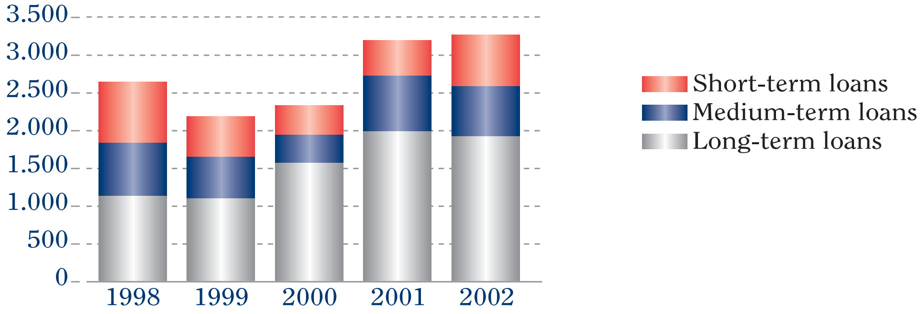


Table Nº 2 Approved operations by tenor (in US$ Millions)

	1998	1999	2000	2001	2002	1998-2002
Long-term loans	1,102	1,048	1,556	2,020	1.920	7.645
Medium-term loans	661	476	402	795	625	2.959
Short-term loans	910	656	365	383	745	3,059
Total	2,673	2,181	2,323	3,197	3,290	13,664

Operations approvals by institutional sector

From the institutional sector perspective, the year 2002 output figures show a significant increase (21%) over the previous year in public sector operations (*Table Nº 3*), with a total value of $2,521 million for the year (Graph Nº 2).

Graph Nº 2 Approved operations by institutional sector (in US$ Millions)

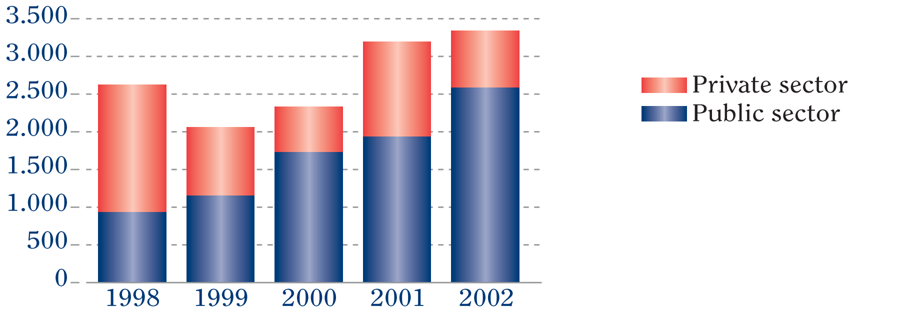
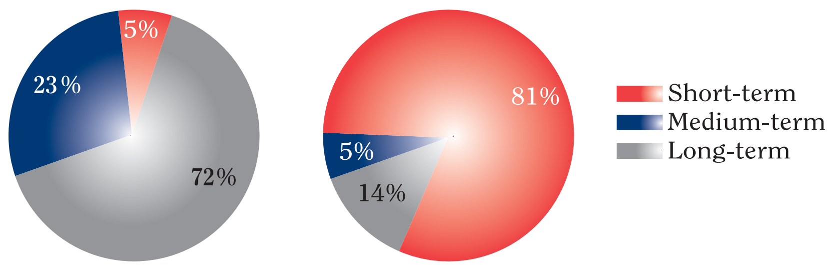


Table Nº 3 Approved operations by institutional sector (in US$ Millions)

	1998	1999	2000	2001	2002	1998-2002
Public sector	968	1,269	1,710	1,988	2,521	8,456
Private sector	1,705	912	613	1,209	769	5,208
Total	2,673	2,181	2,323	3,197	3,290	13,664

Proportionately, the public sector's share of CAF's annual approvals rose to nearly 80%. As can be seen in *Graph Nº 3*, the vast majority of the lending to the public sector was long term, while the predominant borrowing by the private sector was in short-term operations. Indeed, 94% of the long term lending went to the public sector, and 83% of the short-term to the private sector, reflecting the clients' respective preferences.

Graph Nº 3 Breakdown



Distribution by economic sector

In 2002 there was increased demand for funding of construction and improvement of infrastructure networks (*Table Nº 4*). Of the total amount approved, $1,872 million (71%) was for the production, transportation and distribution of electricity, natural gas and potable water; and for the building or improvement of infrastructure for transportation, storage and communications. In fact, these areas absorbed 45% more funding than in 2001, thereby increasing their preponderance over the remaining economic sectors.

Table Nº 4 Loan approvals for project investment by economic sector (in US$ Millions)

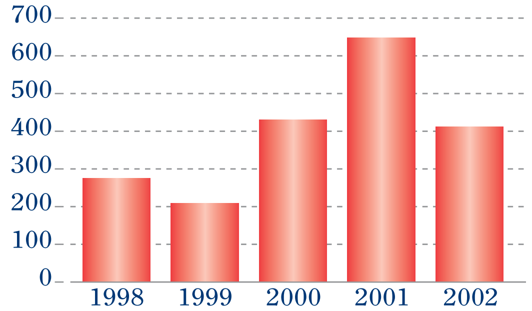
Economic sector	1998	1999	2000	2001	2002	1998-2002
Agricultural infrastructure	62	53	58	84	80	337
Mining and quarry production			195			195
Manufacturing industries	24	77	60	513	22	696
Electric power, gas and water supply	200	193	180	618	769	1,959
Transport., warehousing and communications	941	402	340	672	1,103	3,458
Public administration	55	33	415	195		698
Hotels y restaurants	2	20	23	18	20	83
Financial intermediation	131	345	331	370		1,177
Other social, health and service activities	71	253	145	296	369	1,134
Education		26	169	57	167	418
Total	1,485	1,401	1,916	2,823	2,529	10,153

Noteworthy operations were: Road Integration Corridor Santa Cruz-Puerto Suarez; Rural Infrastructure Sector Program in Bolivia; Multisectoral Public Investment Program for Colombia; Road Integration Corridor Quito-Bogotá-Caracas; Multisectoral Public Investment Program for Ecuador; Public Transport Program for Guayaquil; Road Infrastructure Program for the Metropolitan District of Quito; Multisectoral Public Investment Program for Peru; Caruachi II Hydroelectric Project in Venezuela; Potable Water and Sanitation Modernization and Rehabilitation Program for Venezuela; Multisectoral Public Investment Program for Venezuela; Eletrobras' Investment Plan in Brazil and the National Highways Mega-concession in Uruguay.

Structure of Financing and Catalytic Role

By its participation and leadership, CAF continued to attract resources complementary to its own direct lending, notwithstanding the difficult conditions that it faced in the international environment. Thus, over the course of the past five years, the cumulative amount of such complementary resources, obtained through CAF's essential intervention, exceeds $1,990 million (*Graph Nº 4*).

Graph Nº 4 Approvals* 1998-2002 (in US$ Millions)



*B tranche + related to PCG

In 2002 CAF's catalytic role resulted in approved operations amounting to $238 million, of which $158 million were in the form of B tranches of A/B credits. Additionally, as an example of CAF's promotional activity in support of its clients, it issued a partial credit guarantee designed to raise up to $250 million.

From another perspective, CAF was once again the Andean Region's principal source of international finance, as shown in *Table Nº 5*. As can be seen, more than 59% of the total cost of projects, programs and corporate loans are being financed by the Corporation, with the difference coming from client contributions (21%), other local sources (2.6%) and other external sources (17.4%).

Table Nº 5 Structure of financing for projects and corporate loans in (in US$ Millions)

Source of financing	1998	1999	2000	2001	2002
CAF loans	**1,094**	**1,191**	**1,471**	**2,373**	**2,121**
Contributions from clients	1,231	1,437	1,232	1,332	752
Other locals sources	62	35	166	675	92
Extra-regional sources	**1,557**	**1,445**	**2,655**	**1,154**	**624**
• Loans from multilateral organizations	520	130	1,221	152	146
• Other external sources	1,037	1,315	1,434	1,002	478
Total cost of projects	**3,943**	**4,107**	**5,525**	**5,534**	**3,589**
CAF loans / total cost of projects, as %	**28%**	**29%**	**27%**	**43%**	**59%**

2. Disbursements

In the course of 2002 CAF disbursed funds in an aggregate amount of $2,186 million, including B tranches of A/B operations (*see Table 6*). The disbursement of these resources helped to advance the work on important investment projects and programs that are contributing to the development and integration of the region, thereby fulfilling CAF's commitment to its clients. The majority of the resources thus disbursed ($1,902 million, or 87%) were channeled to countries in the Andean Community. Still, there was a substantial increase in funding to non-Andean countries, a natural consequence of the incorporation of new members. Indeed, disbursements to non-Andean countries rose three-fold, from 4% in 2001 to 13% of total in 2002.

Table Nº 6 Disbursments by country (in US$ Millions)

Country	1998	1999	2000	2001	2002	1998-2002
Bolivia	218	263	150	271	365	1,267
Colombia	311	393	818	379	591	2,493
Ecuador	356	212	235	371	221	1,396
Peru	872	406	362	695	413	2,748
Venezuela	492	294	108	719	311	1,924
Other countries	211	245	146	112	284	999
Total	**2,461**	**1,813**	**1,819**	**2,548**	**2,186**	**10,827**

3. Portfolio

As of the end of 2002, CAF's total loan and investment portfolio amounted to $7,230 million, including direct CAF loans and investments, the third-party portfolio managed by the Corporation, and loans connected to partial credit guarantees provided by CAF. This value is 11% higher than last year's ($6,529 million). Based on 1998's $4,180 million figure, the value of the current portfolio implies a growth rate of 12% per year.

But impressive as it is, the growth of the total portfolio has been surpassed by that of CAF's catalytic role, which over the same period of time went from $441 million to $1,051 million (*Graph Nº 5* and *Table Nº 7*).

Graph Nº 5 Portfolio resource movilization 1998-2002 (in US$ Millions)

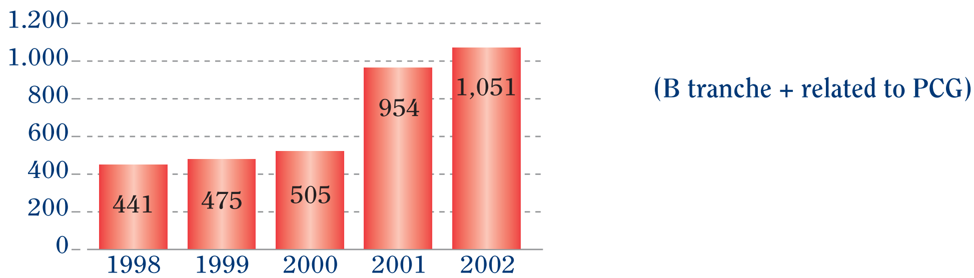


Table Nº 7	Total portfolio*				(in US$ Millions)
Item	1998	1999	2000	2001	2002
CAF loan portfolio	3,657	4,188	4,478	5,455	6,062
Equity instruments	83	103	131	120	117
Subtotal direct CAF portfolio	**3,739**	**4,291**	**4,609**	**5,575**	**6,180**
Portfolio under management*	411	475	255	704	651
Portfolio related to partial credit guarantees			250	250	400
Subtotal: resource movilization	**411**	**475**	**505**	**954**	**1,051**
Total CAF portfolio	**4,180**	**4,766**	**5,114**	**6,529**	**7,230**

* Includes the third-party loans obtained and managed by CAF, as well as loans related to partial credit guarantees.

** Includes the capital's investment portfolio of Human Development Fund - FONDESHU.

Total portfolio by country

As shown in Table 8, the proportion of CAF's total portfolio with Andean Community countries is about 90%, while the remaining 10% includes operations with other member countries, as well as regional operations.

Table Nº 8	Total portfolio* by country				(in US$ Millions)
Country	1998	1999	2000	2001	2002
Bolivia	468	504	486	581	703
Colombia	624	916	1,584	1,835	2,122
Ecuador	935	939	953	1,120	1,122
Peru	983	959	707	1,112	1,299
Venezuela	875	1,025	919	1,406	1,348
Other countries	295	421	464	475	637
Total	**4,180**	**4,766**	**5,114**	**6,529**	**7,230**

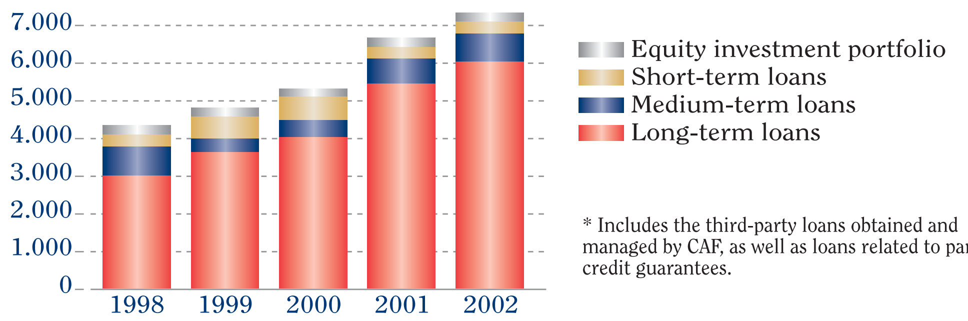
* Includes the third-party loans obtained and managed by CAF, as well as loans related to partial credit guarantees.

Total portfolio by tenor

In *Graph Nº 6* and *Table Nº 9* we can see that, in 2002, the long-term portion of the portfolio (mostly related to long-lasting infrastructure) maintained its incremental trend, growing 11% over last year, to reach $6,151 million.

At the same time, the short and medium-term portion of the portfolio, mostly in foreign trade operations, grew 13% over its 2001 level.

Graph Nº 6 Total portfolio* by type (in US$ Millions)



* Includes the third-party loans obtained and managed by CAF, as well as loans related to partial credit guarantees.

Table Nº 9	Total portfolio* by operational type				(in US$ Millions)
Operational type	**1998**	**1999**	**2000**	**2001**	**2002**
Equity investment portfolio	82	103	131	124	121
Long-term loans	3,022	3,573	4,213	5,560	6,151
Medium-term loans	684	324	259	583	763
Short-term loans	391	767	511	263	195
Total	4,180	4,766	5,114	6,529	7,230

* Includes the third-party loans obtained and managed by CAF, as well as loans related to partial credit guarantees.

Total portfolio by institutional sector

Reflecting CAF's commitment to its principal shareholders and main clients, 79% of its total portfolio by the end of 2002 was with the public sector, in operations amounting to $5,719 million (*Table Nº 10*). Still, the private sector's proportion remained above 20%, at $1,512 million.

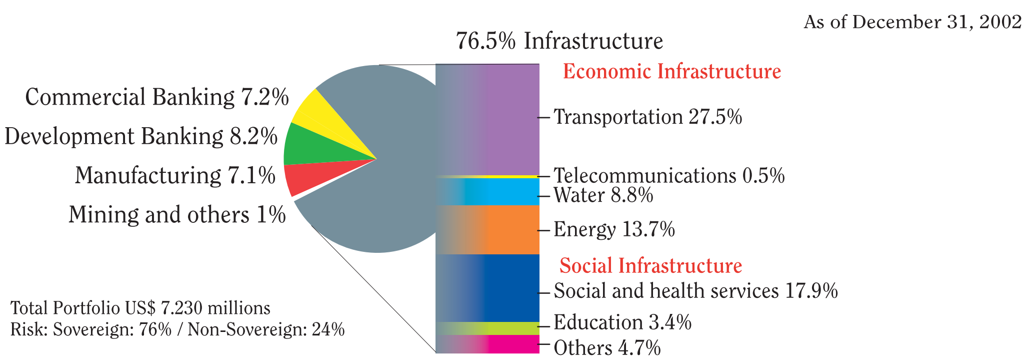
Table Nº 10	Total portfolio* by institutional sector				(in US$ Millions)
Institucional sector	**1998**	**1999**	**2000**	**2001**	**2002**
Public sector	2,506	3,064	3,804	4,777	5,719
Private sector	1,674	1,702	1,311	1,752	1,512
Total	4,180	4,766	5,114	6,529	7,230

* Includes the third-party loans obtained and managed by CAF, as well as loans related to partial credit guarantees.

Total portfolio by economic sector

As shown in *Graph Nº 7* and *Table Nº 11*, infrastructure continues to be the prime investment sector in the countries' strategies, and CAF has been supportive of this approach. Specifically, the proportion of CAF's portfolio dedicated to transportation, warehousing and communications, as well as to the provision of electricity, natural gas and potable water, amounts to one half of the total. Said portion at the end of 2002 is almost 25% higher than a year ago. Notwithstanding, there has also been considerable growth in the portions of the portfolio dedicated to social infrastructure (education, social services and health) and to agricultural infrastructure.

Graph Nº 7 Total portfolio* by economic sector



* Includes the third-party loans obtained and managed by CAF, as well as loans related to partial credit guarantees.

Table Nº 11	Total portfolio* by economic sector				(in US$ Millions)
Sector institucional	**1998**	**1999**	**2000**	**2001**	**2002**
Agriculture, hunting and forestry	190	201	254	201	344
Mining, and quarry production	107	72	40		4
Manufacturing industries	402	344	306	690	511
Electric power, gas and water supply	796	976	1,050	1,396	1,624
Transport., warehousing and communications	972	1,174	1,340	1,525	2,023
Commercial banking	629	592	517	735	522
Development banking	672	751	727	611	595
Education, social and health services	187	383	447	561	1,542
Other activities	226	274	433	810	66
Total	**4,180**	**4,766**	**5,114**	**6,529**	**7,230**

*Includes the third-party loans obtained and managed by CAF, as well as loans related to partial credit guarantees.

Capital investment portfolio

The capital investment portfolio closed 2002 at $121 million (*Table Nº 12*). Most of these resources are in regional investment funds. The rest are share participations in national development institutions and institutions specialized in providing aid to develop and strengthen micro-enterprises.

Table Nº 12	Capital investment portfolio				(in US$ Millions)
Country	**1998**	**1999**	**2000**	**2001**	**2002**
Bolivia	10	10	10	9	10
Colombia	2	10	4	2	2
Ecuador	1	1	1	1	1
Peru	27	27	27	23	16
Venezuela	3	3	3	2	2
Other countries	40	52	86	87	89
Total	**82**	**103**	**131**	**124**	**121**

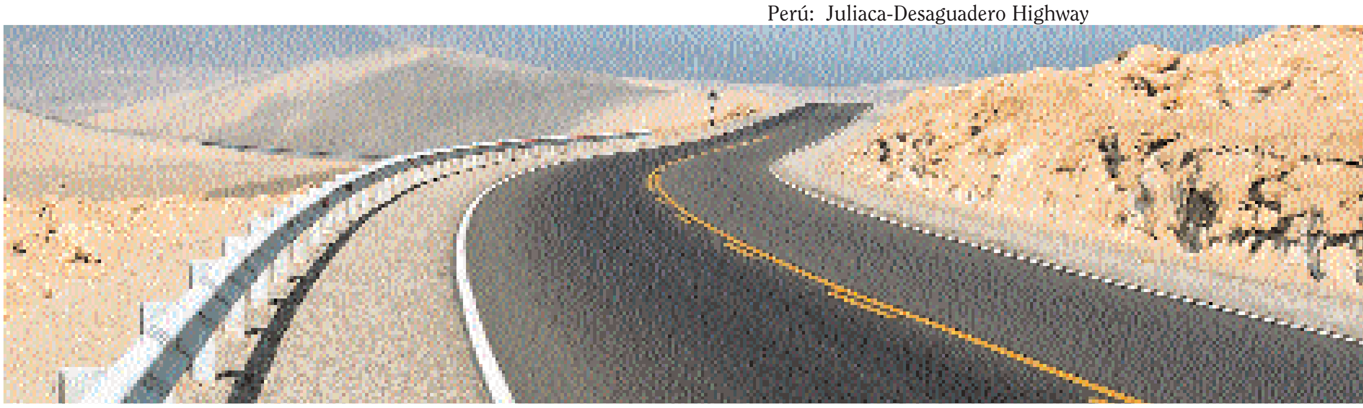
Operations by country

Bolivia: Cementos Soboce - Cement and Clinker Plant

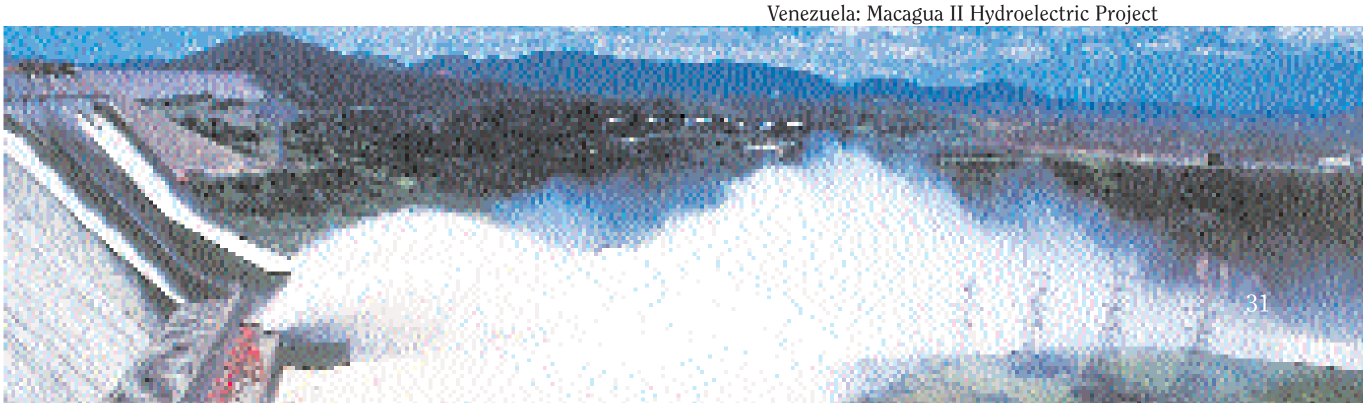
Colombia: Gases de Boyacá & Santander

Ecuador: Roads Program

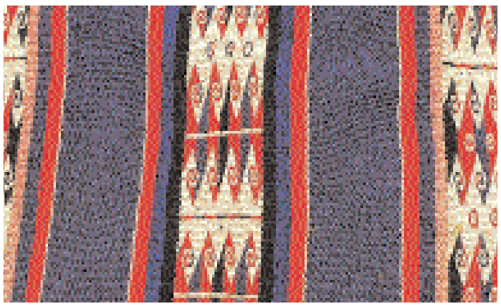
Perú: Juliaca-Desaguadero Highway

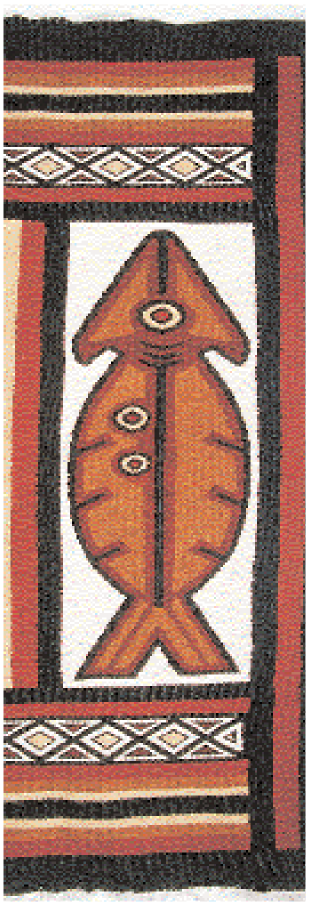


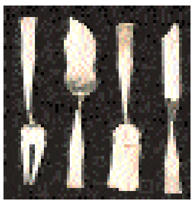
Venezuela: Macagua II Hydroelectric Project



Bolivia: Bolivia-Brazil Pipeline







Bolivian craftmanship shown at
the First Encounter of Andean Artisans

Bolivia

In 2002 CAF approvals for Bolivia amounted to $503 million, mostly oriented toward financing infrastructure projects in regional integration roads. Also approved were type A/B co-financing operations, and trade and working capital financing programs. $365 million was disbursed, and the total portfolio* rose to $703 million.

The single most important approval was $200 million for the Rural Infrastructure Sector Program, the funds to be channeled principally to irrigation, rural electrification, and municipal and provincial roads. This program is to have significant impact upon employment generation, and to improve social and economic conditions for an important segment of the most vulnerable population.

A $100 million loan was approved for the Regional Integration Highway Corridor Santa Cruz-Puerto Suarez. The road is part of Bolivia's Fundamental Network No. 4, and as such is one of the key highway axes in the IIRSA Initiative, with positive influence over five regional countries: Bolivia, Brazil, Paraguay, Chile and Peru.

An A/B type co-financing operation in the amount of $88 million was approved for the firm Transportation of Hydrocarbons (Transredes). The financing is for investments designed to enhance the transportation of gas and hydrocarbon-related liquids. The corresponding project, which is also being co-financed by the IADB, will have positive effects upon the balance of payments, on the level of tax receipts, as well as on social welfare and employment.

From another perspective, CAF's financial support played an important role in helping to provide liquidity to the financial system during the elections, thereby offsetting the effect of uncertainty-driven deposit withdrawals.

Also, $113 million was approved in several loans for working capital and trade financing. The corresponding lines of credit established with a number of Bolivia's financial institutions will channel resources to the productive sectors, in particular to micro-enterprises, with positive consequences for the national economy.

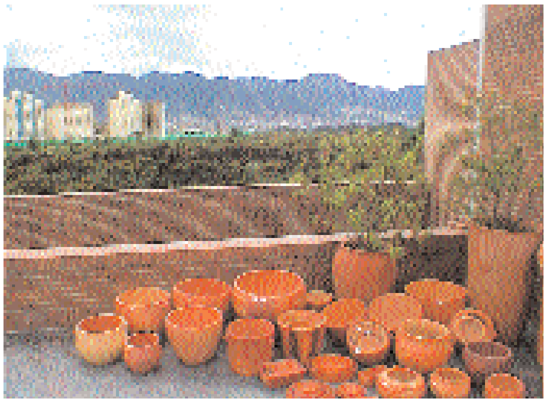
Technical assistance operations and grants from FONDESHU amounted to an aggregate sum of $2 million, aimed at a variety of projects with high social and economic impact. Through the Governance Program, ministries and municipalities received institutional strengthening support (including training for leadership and in municipal management) with which to improve the implementation of development programs. Among others, operations were approved in support of competitiveness, artisanship, small-and-medium size firms, and export and regional trade promotion.

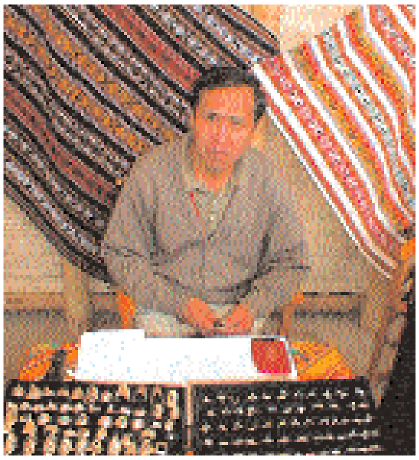
In Calamarca (La Paz) the Ecopueblo Foundation, with CAF support, began operating a center for information technology and communications applied to education. The center will give Aymara children and youngsters access to modern technology. CAF's support was also present in the Community Project for Comprehensive Tourism Development, whose beneficiary is the Andean community of Culpina K (Potosí). The project seeks to attract tourists by improving communal infrastructure, and to provide training to the local inhabitants that will generate employment and help to diversify sources of income.

Several initiatives to foster Bolivia's competitiveness were advanced by means of the Andean Competitiveness Program (PAC). Among these were the establishment of the Bolivian Productivity and Competitiveness System, the organization of encounters to develop production chains, and starting efforts to establish an incubator for new enterprises.

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

Colombia: Gases Boyaca and Santander





Colombian craftmanship shown at
the First Encounter of Andean Artisans

Colombia

Approvals for Colombia totaled $750 million, aimed at infrastructure projects, especially for roads and regional development, public investment programs and working capital financing. Disbursements amounted to $591 million, and total portfolio* reached $2,122 million.

Especially noteworthy among the approved operations was a Partial Credit Guarantee (GPC) for $83 million with which CAF helped Colombia secure $250 million in fresh funds from a group of international commercial banks, on terms made more favorable by CAF's participation and backing. Deutsche Bank and J.P. Morgan Chase also took part in structuring this operation. The GPC will aid the Colombian government to sustain its economic program by providing funding for infrastructure projects, principally in public roads, as well as for regional development.

In another operation, CAF approved $200 million for the government's Year 2002 Multisectoral Public Investment Program that aims to accelerate economic growth, generate openings for private investment, improve the attention to basic human needs, increase employment, and enhance living standards. The funds will be used to carry out high priority projects in the fields of transportation, potable water and sanitation, agriculture and livestock development, and public health. Project beneficiaries are located in especially vulnerable urban and rural areas of the country, targeted by the government to receive new infrastructure works, thereby to eliminate conditions that lead to violence and social decay.

Within the framework of the IIRSA Initiative, the Corporation approved a $75 million loan to the Republic of Colombia to finance the Quito-Bogotá-Caracas highway corridor, thus enabling the completion of road infrastructure works along the borders with Ecuador and Venezuela. The project contributes significantly to regional integration by improving communications between Colombia, Ecuador and Venezuela, and by fomenting intra-regional trade through shorter travel times and lower transport costs.

Several working capital and investment financing operations were approved this year to support the directly productive sectors, for an aggregate total amount of $140 million. The single most important such operation was for $80 million with the Foreign Trade Bank (BANCOLDEX).

Non-reimbursable technical assistance operations amounting to $823,190 were approved. They are directed toward a variety of areas, including the promotion of public and private sustainable infrastructure projects and programs; regional production and logistics; strengthening the financial system and capital markets; modernizing the business sector; advancing the process toward economic and commercial integration; strengthening small-and-medium size enterprises; improving the functioning of public and private institutions in a competitive environment; and promoting sustainable environmental protection and preservation of cultural values.

Colombia also received technical assistance support from CAF's Governance Program, earmarked for the areas of ethics for development, institutionalism, decentralization and citizen participation, and change leadership. The latter involves the identification and training of leaders from 138 municipalities in civic and democratic values.

Lastly, approvals with FONDESHU resources totaled $550,000, mostly in support of micro-enterprise and community development. Under the former, the Women's World Corporation is being helped to qualify as a CAF micro-finance borrower. Under the latter, the Corporation for the Development and Peace of the Cauca Valley (VALLENPAZ) is to be aided in the creation and establishment of a pilot farm that is to be integrated, productive and profit making. The farm will be manned and run by displaced farmers.

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

Ecuador: Potable Water Project

Ecuadorean craftmanship shown at
the First Encounter of Andean Artisans

Ecuador

In 2002 CAF consolidated its position as Ecuador's principal source of multilateral financing. $407 million were approved, destined mainly to provide funding for infrastructure projects, while disbursements amounted to $221 million, and the total portfolio* reached $1,122 million.

Following CAF's intent to improve conditions for increased productivity and competitiveness, $100 million was earmarked for the Multisectoral Public Investment Program. This program contains a set of infrastructure projects distributed among several provinces, and belonging to a number of high priority areas such as transportation, education, health, welfare, potable water and sanitation.

In Guayaquil, CAF added its own efforts to those of the municipality in a drive to solve the city's severe urban transport problem, seeking to reduce travel time for some 440 thousand daily users by partially funding an Urban Public Transport Plan with a $67.3 million loan.

A $50 million loan was made in support of Quito's plan to improve its metropolitan road network. Benefits are expected to accrue not only from lesser traffic congestion, but also from enhanced safety of public areas and greater environmental protection.

A loan for $25 million is aimed at supplying potable water, sewage and treatment facilities to three cities, Salinas, La Libertad and Muey, which are located on the Santa Elena peninsula in the Province of Guayas.

Under the project heading of "Expansion Carlos Pérez Perazo", financing in the amount of $56 million is being provided to recondition and improve the Rafael Mendoza Avilés Bridge, also known as the National Unity Bridge. This bridge constitutes one of the main links between Guayaquil and Quito with the Southern and Western parts of the country. Its betterment will result in enhanced traffic flows through the Southern Inter-Oceanic Corridor, joining Ecuador, Peru and Brazil.

As part of the IIRSA Initiative, a loan in the amount of $22 million was approved in support of the Ecuadorian Ministry of Public Works' principal roads program, specifically earmarked for the Puyo-Macas Highway, which is part of the Amazon Trunk System. Improvement of this highway will promote integration between the country's Eastern region and neighboring areas of Colombia, Peru and Brazil.

Financing for working capital, investment and trade in an aggregate amount of $84 million was approved for the private sector and for banking institutions. In addition, $1,073,000 in FONDESHU resources was provided to micro-finance institutions for lending to micro and small enterprises, as in the case of the Sociedad Financiera Ecuatorial and the Bank of Pichincha/CREDIFE, as for the Hope and Happiness project/MENTOR Foundation aimed at providing support for the education of low-income youths.

Non-reimbursable technical assistance amounting to $895,000 was approved for a number of undertakings, among which stand out the support given through CAF's Governance Program to efforts in institutional strengthening, decentralization, citizen participation, and for the sponsorship of encounters to encourage debate and help build consensus. Aid was provided as well to projects in sustainable development, competitiveness, environmental protection, commercial and economic integration, strengthening of financial systems and capital markets. Also funded were efforts to promote private investment along the Ecuador-Peru border, and to foster restoration and preservation of the nation's cultural assets.

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

Peru: Chavimochic Project

Peruvian craftmanship shown at
the First Encounter of Andean Artisans

Perú

This year CAF contributed importantly to the execution of public investment projects and the preservation of macroeconomic stability in Peru. Approvals amounted to $498 million, disbursements to $413 million, and total portfolio* reached $1,299 million.

CAF assistance to the country's social and economic stability was provided through its support of the government's efforts to balance the main macroeconomic variables, to carry out poverty alleviation programs, and to execute productive public investment projects.

Especially significant for its high social content, a $250 million loan was granted to the Ministry of Economics and Finance in support of the Year 2002 Multi-sector Public Investment Program. Improved access to health services, betterment of education, public sanitation, power and transportation, are some the many high priority social infrastructure areas to be funded from the program. An important proportion of CAF's funding is to be channeled through the National Compensation and Social Development Fund (FONCODES).

It is worth noting that in prior years, starting in year 2000, the Corporation had provided a total $750 million in financing for multi-sector programs in Peru, leading to increased output of goods and services, and improved living standards for the general population. Principal areas benefiting from these programs were the sectors of transportation, agriculture, health, education, health and power.

Continuing its support for transnational projects that lead to an integrated infrastructure, CAF intensified its coordination with the public sector agencies involved in the IIRSA Initiative.

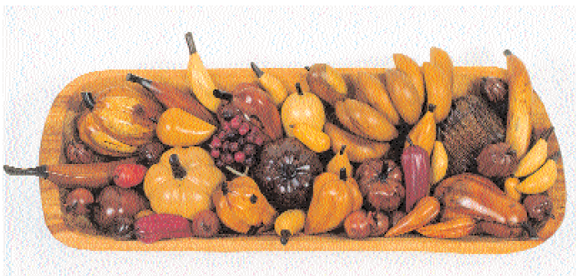
Also approved in 2002 were private sector loans for working capital and trade financing, aggregating $137 million, to be channeled through the local financial system as revolving lines of credit.

In the framework of the launching of the second phase of the Andean Competitiveness Program (PAC), three agreements for a total of $115,000 were signed. One, for the Association of Table Wine Producers (PROVID), seeks to strengthen this pilot experiment in products that are highly competitive internationally. Another is for the Export Promotion Commission (PROMPEX) to enhance its website with information that is helpful to local businessmen, especially at the level of small and medium-size firms. A third one is with the government to help prepare the Framework Document on Competitiveness in Peru as the strategic underpinning for the action plan being developed by the joint private/public National Council on Competitiveness.

CAF also approved a number of technical assistance operations for an aggregate amount of $688,000, mainly in support of the following areas: investment promotion; trade liberalization between CAF's member countries; improved tourism services; environmental protection; natural disaster prevention; and strengthening national cultural values. Through the Governance Program, youth leaders received training in institutionalism, values, democratic practices and citizen participation. Lastly, from the FONDESHU program, $100,000 was approved for institutional strengthening in micro-finance.

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

Venezuela: Caracas Subway



Venezuelan craftmanship shown at
the First Encounter of Andean Artisans

Venezuela

CAF's approvals for Venezuela reached a record level in 2002 with $762 million, earmarked principally for infrastructure projects in roads, power, water and sanitation. Disbursements were $311 million, and the total portfolio* rose to $1,348 million.

The single most important operation was for $200 million to partially finance the 2002-2003 Multi-sector Public Investment Program, with a view to improving physical infrastructure in four high priority areas: transportation, education, public health and the environment; thereby increasing living standards and advancing sustainable development. The program will have a total cost of $289 million, of which CAF's loan will finance 69%. Financing was also approved for preinvestment studies in projects framed within the CAF-sponsored Initiative for Integration of Regional South American Infrastructure (IIRSA).

A loan for $175 million was approved to finance the Potable Water and Sanitation Modernization and Rehabilitation Program, which seeks to support this sector's process toward institutional modernization under a new public statute governing the provision of potable water and sanitation services, as well as to improve such services by refurbishing physical infrastructure works.

Supplementary financing of $31.5 million was approved for a project to build a 162 meter high dam on the Yacambú River. The dam will create a reservoir with a capacity of 435 million cubic meters, from which a tunnel 24 kilometers in length will carry the water to the Quibor Valley at the rate of 10.4 m3/sec. The project includes the building of a water treatment plant, as well as that of an irrigation system.

To help supply the country's growing needs for electric power, CAF approved $100 million for an EDELCA project to allow the completion of civil works in the Caruachi Hydroelectric Power Plant.

The Corporation also approved a $20 million loan for Maracaibo's Metro, a project which is part of that occidental city's urban development plan, to help provide it with a public transport system that is safe, efficient and economical for its users, as well as being less contaminating of the environment than the alternative automotive transport.

In addition $115 million were approved for the productive private sector in the form of working capital, trade and investment loans.

Technical assistance resources amounting to $559,000 were approved for a number of specific operations to strengthen the country's financial system, advance economic and commercial integration, promote sustainable development, prepare projects for public and private infrastructure, modernize and strengthen the private sector, provide institutional strengthening for competitiveness and governance in both the public and private sectors in support of organized labor activities, and to disseminate cultural values.

A $41,700 loan was approved from the Fund for Human Development (FONDESHU) to help carry out a community development project under the leadership of the Agricultural Development Corporation. This project aims to provide institutional strengthening and training in support of productive farming and livestock activities in 46 rural educational communities (school mini-farms) in order to enhance comprehensive education of local children and youngsters. In a large sense the project seeks to incorporate learning communities into the process of carrying-out productive projects and learning by doing through a practice-and-theory combination that relies on productive activities to help develop values, a sense of responsibility and motivation.

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

Other shareholder countries and multinational operations

Year 2002 stands out for the intensity of CAF's efforts to tighten relations with shareholder countries from outside the Andean Community, and for the support given to multi-national projects that have significant regional integration content. The amount approved for such operations added up to $371 million, disbursements totaled $294 million, and the total portfolio* reached $637 million.

This year marked the start of operations with the Republic of Uruguay, which joined CAF at 2001's end. It received a $25 million loan to partially finance a project for mega-concessions of national highways, undertaken by the government through the National Development Corporation. The funds will be applied to rebuilding the country's primary road network in accordance with Mercosur standards, thereby increasing its usefulness for export traffic. This road network forms part of the integration projects that were identified by the IIRSA Initiative, in light of its contribution to communication and trade with the rest of Mercosur's countries.

An A/B type loan was approved for Brazil, making it the first time that this kind of instrument is used by CAF in a MERCOSUR country. Its $150 million will finance an operation of Centrais Eletricas Brasileiras (ELETROBRAS) in the context of the Energy Emergency Program, with which the country's government is confronting the electric power crisis facing the nation since mid-2002.

This loan was structured with $30 million contributed by CAF for the "A" tranche, and a $120 million financed by a prestigious syndicate of international banks led by the Banco Bilbao Vizcaya Argentaria Securities. In this manner CAF played a catalytic role of the first order by attracting such resources from international financial markets.

In support of a number of private sector clients in Brazil, CAF approved $110 million in loans to finance working capital and foreign trade.

As part of the strengthening of CAF's relations with Mexico, a $1.5 million micro-finance operation was approved in favor of the country's principal institution for the sector, Financiera Compartamos. The institution is deemed by some indicators to be the best regulated of its kind in Latin America. The funds will be used to finance working capital requirements of micro-enterprises.

Paraguay received $20 million in disbursements of which US$18 million were for the continued execution of the Transchaco Highway, an infrastructure project joining Paraguay and Bolivia.

Anther $12 million was disbursed to Panamá for the Inter-Oceanic Corridor, to cover significant advances in execution during the year.

In the realm of technical cooperation, CAF approved $9 million for efforts to strengthen and integrate trade between the countries in the region and MERCOSUR, the rest of Latin America, the U.S. and Europe. Funds were also made available for regional infrastructure projects, the Andean Competitiveness Program, support for the restoration of cultural values, marketing of artisan production, environmental protection, the prevention and mitigation of risks associated with natural disasters, and improvements to the region's tourism sector.

Through its Governance Program, CAF financed projects in ethics and democratic development, state and public sector management reform, citizen participation, law-abiding government, corruption, training of leaders in decentralization and democratic sustainability, strengthening of regulatory frameworks, and integrated programs in institutional development for municipalities in the Andean region.

Table of approved operations

(in US$ millions)

	Short term	Medium term	Long term	Total CAF
1. Bolivia	**112.8**		**390.0**	**502.8**
Project, Program and Corporate Loan Execution			388.0	388.0
International Trade Operations*	112.8			112.8
Technical Cooperation and FONDESHU operations			2.0	2.0
Equity Participations				
2. Colombia	**140.0**	**333.3**	**276.4**	**749.7**
Project, Program and Corporate Loan Execution		333.3	275.0	608.3
International Trade Operations*	140.0			140.0
Technical Cooperation and FONDESHU operations			1.4	1.4
Equity Participations				
3. Ecuador	**84.5**		**322.3**	**406.7**
Project, Program and Corporate Loan Execution			320.3	320.3
International Trade Operations*	84.5			84.5
Technical Cooperation and FONDESHU operations			2.0	2.0
Equity Participations				
4. Peru	**137.0**		**360.8**	**497.8**
Project, Program and Corporate Loan Execution			360.0	360.0
International Trade Operations*	137.0			137.0
Technical Cooperation and FONDESHU operations			0.8	0.8
Equity Participations				
5. Venezuela	**84.0**	**141.8**	**536.5**	**762.3**
Project, Program and Corporate Loan Execution		141.8	535.9	677.7
International Trade Operations*	84.0			84.0
Technical Cooperation and FONDESHU operations			0.6	0.6
Equity Participations				
6. Other Shareholder countries	**186.5**	**150.0**	**34.2**	**370.7**
• Brazil	110.0	150.0		260.0
Project, Program and Corporate Loan Execution		150.0		150.0
International Trade Operations*	110.0			110.0
Technical Cooperation and FONDESHU operations				
Equity Participations				
• Mexico	1.5			1.5
Project, Program and Corporate Loan Execution				
International Trade Operations*	1.5			1.5
Technical Cooperation and FONDESHU operations				
Equity Participations				
• Uruguay	75.0		25.0	100.0
Project, Program and Corporate Loan Execution			25.0	25.0
International Trade Operations*	75.0			75.0
Technical Cooperation and FONDESHU operations				
Equity Participations				
Multinational Technical Cooperation Operations			9.2	9.2
Grand Total CAF	**744.8**	**625.1**	**1,920.0**	**3,289.9**
Project, Program and Corporate Loan Execution		625.1	1,904.1	2,529.2
International Trade Operations*	744.8			744.8
Technical Cooperation and FONDESHU operations			15.9	15.9
Equity Participations				
Grand Total CAF (in proportion by term)	**23%**	**19%**	**58%**	**100%**

* Includes institutional strengthening operations for the financial sector

Main approved operations by country

Client/executor	Operation	CAF Loan ST*	CAF Loan MT*	CAF Loan LT*	Total Cost	Description
Bolivia		0.0	0.0	388.0	710.2	
Republic of Bolivia Servicio Nacional de Caminos	Road Integration Corridor Sta. Cruz - Pto. Suárez			100.0	372.2	The project seeks to improve the road between Puerto Suarez and Santa Cruz, aiding integration eastward with Brazil and westward with Chile and Peru.
Transporte de Hidrocarburos S.A. TRANSREDES	Investment Plan Corporative for Transporte de Hidrocarburos S.A.'s (A/B loan)			88.0	88.0	These funds are earmarked for a program to increase the production of gas and liquid fuel manufactured by the company, and to improve and maintain pipe ducts. The program will help Transredes to meet its commitments vis-à-vis Petrobras to supply the Brazilian market, as well as to increase export capacity, and improve and modernize the transportation of gas and liquid fuels for domestic use.
Republic of Bolivia Finance Ministry	Program for Rural Infrastructure			200.0	250.0	This program will provide public sector investment for the rural areas in the form of multiple employment-generating works. The funds are to be used to finance new projects in irrigation, rural electrification, rural roads and other small projects, as well as to accelerate the completion of similar works.

Details of main projects, programs and approved corporative loans (in US$ millions)

*Note:
Short-term (CT): less than one year
Medium-term (MT): between one and five years
Long-term(LT): over five years

Client/executor	Operation	CAF Loan			Total Cost	Description
Colombia		ST	MT	LT		
		0.0	333.3	275.0	742.1	
Republic of Colombia Ministry of Finance and Public Credit	Multisectoral Public Investment Program for 2002			200.0	315.0	The program finances infrastructure and social investment projects aimed at promoting sustainable development, employment generation and poverty reduction. The resources are intended for projects in transportation, potable water and sanitation, agriculture and livestock development, and public health.
Republic of Colombia Ministry of Finance and Public Credit	Partial Credit Guarantee		333.3		333.3	This operation ensures foreign financing on favorable terms of up to $250 million from a group of international commercial banks. It will provide funding for investment projects in infrastructure, especially for road transportation and regional development.
Republic of Colombia Instituto Nacional de Vías INVIAS	Road Integration Corridor Quito-Bogotá-Caracas			75.0	93.8	The project will help to finalize construction of the Roads for Peace Program along the Venezuela-Ecuador border, thereby strengthening integration between the two countries. Besides, it will improve traffic, reduce travel time, and facilitate commerce.

Client/executor	Operation	CAF Loan ST	CAF Loan MT	CAF Loan LT	Total Cost	Description
Ecuador		0.0	0.0	320.3	497.7	
Republic of Ecuador Ministry of Public Works and Communications (MOP)	Expansion and rehabilitation of the Rafael Mendoza Avilés bridge (expansion "Carlos Pérez Perazo")			56.0	102.3	The project seeks to build a parallel bridge on the Daule River, with the required road connectors, and to revamp the "Rafael Mendoza Avilés" bridge ("Carlos Perez Perazo" expansion) in the city of Guayaquil. The project is a key element for the comprehensive improvement of the single direct corridor linking Guayaquil, La Puntilla and Duran. As such, it is an essential link between these points, as well as a means to join the area with the rest of the country.
Republic of Ecuador Ministry of Finance and Public Credit	Program for 2002 Multisectoral Public Investment			100.0	163.0	The funds are intended to partially finance a set of infrastructure projects in the following sectors: transportation, urban development, potable water and sanitation, education, public health, agricultural development, airport improvement and signage for tourism.
Metropolitan District of Quito	Road Infrastructure Program for Quito's metropolitan area			50.0	71.0	This program will help the Municipality to resolve severe traffic congestion problems, by making improvements at the main intersections where major tie-ups occur.
Republic of Ecuador Ministry of Public Works and Communications (MOP)	Financing of the Puyo-Macas highway			22.0	32.0	This project, in the framework of IIRSA, seeks to improve living conditions in its area of influence by reducing transportation costs and improving access to services, markets and raw materials. Specifically, it will improve the roadway of the Puyo-Macas Highway along the Amazonic trunk, extend the road's useful life and enhance travel safety.

Client/executor	Operation	CAF Loan			Total Cost	Description
		ST	MT	LT		
Ecuador		0.0	0.0	320.3	497.7	
Republic ofl Ecuador - Municipality of Guayaquil	Mass transport plan for Guayaquil			67.3	104.4	The funds are intended to finance improved urban transportation for the benefit of the 85% of the city's inhabitants who have no access to the use of private automobiles.
CEDEGE	Flood drainage system for Salinas			25.0	25.0	Within a project begun in 1997 to provide potable water and sewerage works for several communities on the Santa Elena Peninsula (Guayas Province), the financing approved in 2002 will help to construct the flood water drainage system for Salinas. Including the recently granted loan, CAF has provided $68 million in funding for the aggregate project, equivalent to 28% of its total cost.

Client/executor	Operation	CAF Loan ST	CAF Loan MT	CAF Loan LT	Total Cost	Description
Perú		0.0	0.0	250.0	358.0	
Republic of Peru - Mininistry of the Economy and Finance	Multisectoral Public Investment Program for 2002			250.0	358.0	This program consists of infrastructure projects selected on the basis of their positive effect upon the standard of living of the poorest segments of the population, and also aimed to attract and promote private investment.

Client/executor	Operation	CAF Loan			Total Cost	Description
		ST	MT	LT		
Venezuela		0.0	0.0	526.9	817.1	
Bolivarian Republic of Venezuela- EDELCA	Caruachi II Hydroelectric Project			100.0	100.0	The Caruachi Project is intended to help cover the country's growing electric power requirements by adding an average annual production of 13,300 GWh, and by improving the system's efficiency and reliabilty.
Bolivarian Republic of Venezuela- Metro of Maracaibo	Line 1 of the Metro of Maracaibo			20.0	232.0	The loan is to finance the First Stage of the Maracaibo Metro's Line 1. METROMARA is designed to provide secure, efficient, comfortable, fast and economic transportation to the city's population, as well as to help improve their environmental conditions and standard of living.
Bolivarian Republic of Venezuela - MARN	Potable Water System Yacambú-Quibor V			31.5	31.5	The Yacambú-Quibor Water Supply project involves the building of a 162 meter high dam on the Yacambú River to provide irrigation for agricuture in the Quibor valley, and potable water to the City of Barquisimeto and neighboring communities.

Venezuela

Client/executor	Operation	CAF Loan ST	CAF Loan MT	CAF Loan LT	Total Cost	Description
Venezuela		0.0	0.0	526.9	817.1	
Bolivarian Republic of Venezuela C.A. Hidrológica Venezolana	Potable Water and Sanitation Sector Modernization and Rehabilitation Program			174.8	253.6	The loan will help the Venezuelan Government to modernize the potable water and sanitation sector institutionally, and to rehabilitate certain infrastructure works. Included in the program are provisions to help transfer utilities to municipalities, in accordance with the recommendations of studies to be commissioned by the respective local associations. Also part of this program is the execution of high priority works to improve or expand service in accordance with applicable standards of quality and consistency.
Bolivarian Republic of Venezuela - Ministry of Finance	Multisectoral Public Investment Program for 2002			200.0	200.0	The program involves a number of public sector investment projects in support of higher living standards and human development, through works in transportation, education, public health and environmental protection. Financing is also provided for preinvestment studies to advance projects included in the Initiative for the Regional Integratioin of South America (IIRSA), which CAF has been promoting.

Client/executor	Operation	CAF Loan ST	CAF Loan MT	CAF Loan LT	Total Cost	Description
Other shareholder countries		0.0	150.0	25.0	175.0	

Client/executor	Operation	CAF Loan ST	CAF Loan MT	CAF Loan LT	Total Cost	Description
Brazil		0.0	150.0	0.0	150.0	
Centrais Elétricas Brasileiras, S.A. ELETROBRAS	A/B loan for the company's general financial requirements		150.0		150.0	The funds are to finance part of Eletrobras' investment plan within the Brazilian Government's Emergency Energy Program. The program aims to confront the drought-induced electric power crisis that Brazil faces since June of 2001, being vulnerable to such conditions since over 90% of the country's generation capacity is hydroelectric. The funds will help to increase production by optimizing generation capacity in Brazil through a number of generation and transmission projects.

Client/executor	Operation	CAF Loan ST	CAF Loan MT	CAF Loan LT	Total Cost	Description
Uruguay		0.0	0.0	25.0	25.0	
National Development Corporation (CND) Corporación Vial del Uruguay	Mega-concession of National Highways			25.0	25.0	The project seeks to improve Uruguay's road network, improving the conditions of export corridors to the standards of the MERCOSUR, thereby allowing transit by heavy trucks. This will lead to lower transportation cost, better access to markets and raw materials, and consequently to improved living conditions in the area of influence. The roads in this project form part of the set of integration highways that was identified as part of the IIRSA Initiative.

CAF's solid performance in 2002 was a reflection of the Corporation's strengths: undoubted stockholder support, conservative financial policies, and prudent management practices.

On March 1, 2002, the stockholders agreed to a new increase in authorized capital, from $3.0 billion to $5.0 billion, allowing for a new subscription of US$435 million to be paid over four years starting in 2003. This new increase was in addition to the US$606 million, approved in 1999, currently being executed.

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 2002: US$3.3 billion and US$2.2 billion respectively. Very importantly, 77% of approvals and 87% of disbursements were directed to the financing of medium and long-term projects.

Profitability remained strong in spite of the unprecedented decline in interest rates experienced during 2002. Net Income reached US$ 127.1 million for a ROE of 6.6% and a ROA of 1.8%.

2002 was a record year for CAF's activities in the international capital markets. Total issuance in the bond markets was US$1.1 billion. In addition, CAF established a new US$500 million ECP program and increased its existing USCP Program from US$500 million to US$1 billion. CAF was the only Latin American issuer to place bonds in three different currencies: US Dollars, Euros, and Sterling. With regards to the Sterling market, CAF's issue was the first from Latin America in almost five years (*Chart 1*).

Chart Nº 1 — 2002 Issues in the International Markets

Date	Market	Ammount in original currency (in millions)	Equivalent in US$ millions
March	Dollars	US$ 350	350
June	Euros	EUR 350	326
July	Euro Commercial Paper Program (ECP)	US$ 500	500
August	EMTN	EUR 100	98
August	US Commercial Paper Program (USCP)	US$ 1,000	1,000
October	Dollars	US$ 85	85
November	Short-term Note Program (Spain)	EUR 500	490
December	Pounds Sterling	GBP 175	272
	Total 2002		**3,121**
	Total 1993-2002		**6,944**

CAF's ratings - A/F1/Stable by Fitch, A2/P-1/Stable by Moody's, and A/A-1/Stable by Standard & Poor's - were ratified by all the credit rating agencies (*Chart 2*).

Chart Nº 2 — Ratings

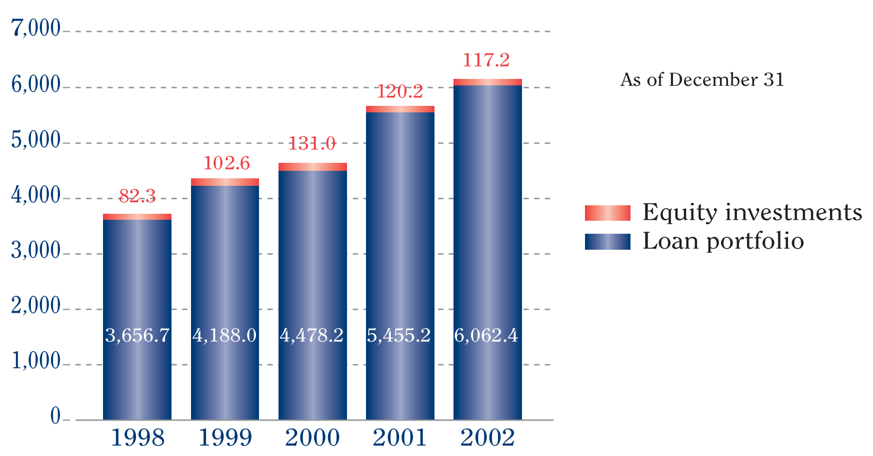
As of December 31, 2002

	Long-term	short term
Standard & Poor's	A	A-1
Moody's	A2	P-1
Fitch	A	F1

Loans

The quality of the loan portfolio remained sound and the asset quality indicators were well within the policies and guidelines of the Corporation. At 31 December 2002, the loan portfolio was $6.1 billion, representing 80% of total assets and reflecting an increase of 11.1% from 2001 (*Graph 1*). Medium and long-term loans represented 97% of total portfolio. In addition, loan participations under the A/B loan program amounted to $628 million at the end of 2002. These participations were placed among leading international banks, largely from Europe and the United States.

Graph Nº 1 Loan and equity securities portfolio (US$ Millions)



The average term of the loan portfolio was 4.9 years in 2002, compared to 4.5 years in 2001. The lengthening of the term profile of the loan portfolio is a reflection of the region's urgent need to develop sustainable infrastructure projects and CAF's ability to address this need.

Loan quality remained strong during 2002. At 31 December 2002, non-performing loans (90-day past due loans) were $29 million. The loan-loss provision totalled $196 million, representing 3.2% of the total loan portfolio and 6.7 times non-performing loans. CAF's management considers the level of the loan-provisions to be adequate in view of, first, the historically excellent performance of loan portfolio and, second, the Corporation's proven preferred creditor status in the Andean region.

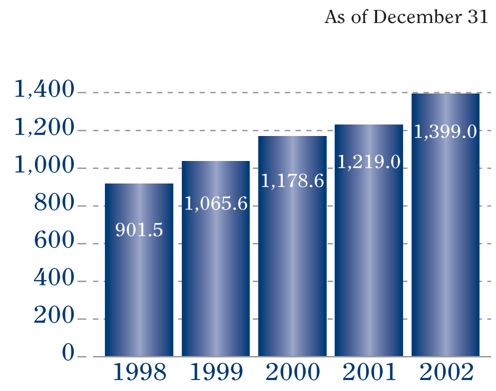
Equity Securities

At 31 December 2002, the equity securities portfolio amounted to $117 million, a decline of $3 million compared to 2001. The decline was due in part to a charge of $5 million to the equity securities portfolio resulting from management's assessment of the value of these investments. The equity securities portfolio comprises both investments in investment funds, representing 86% of the total, and in companies' shares, representing the remaining 14%.

Liquid Investments

CAF's policies and guidelines for the management of liquid investments emphasize security and availability over pure return. This is reflected both in the quality and in the average duration of the investments. At 31 December 2002, liquid investments were $1.4 billion, representing 18% of total assets. 95% of the total was placed in time deposits at major international banks and investment-grade fixed-income securities (*Graph 2*). The duration of the total portfolio of liquid investments was 0.34 years at the end of 2002.

Graph Nº 2 Liquid assets (US$ Millions)

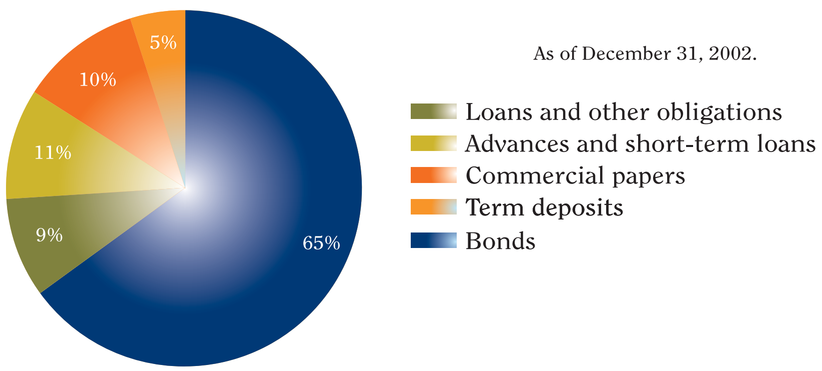


Funded Debt

CAF's funding strategy follows two basic principles: diversification of funding sources as well as competitive terms. These principles are pursued within asset-liability management policies that seek to ensure a close match of assets and liabilities with respect to currency, interest rate, and tenor.

At 31 December 2002, funded debt amounted to $5 billion, a 5% increase from the end of 2001. The increase is closely related to the growth of the loan portfolio reflected during the year. Funded debt consists of deposits (5%), commercial paper (10%), short-term borrowings (11%), bonds (65%), and long-term borrowings (9%) (*Graph 3*).

Graph Nº 3 Liabilities



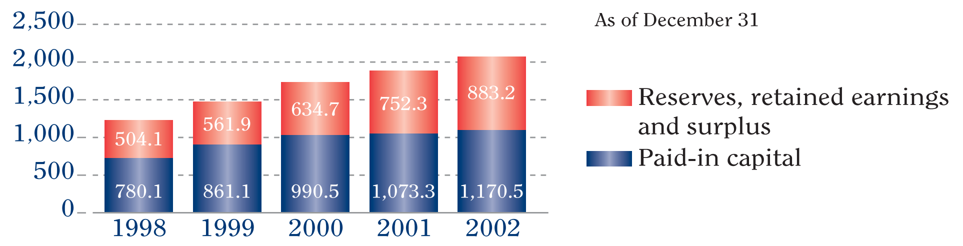
The leverage ratio (total liabilities over total stockholders' equity) at the end of the year was 2.4:1, well within limit of 3.5:1 established in CAF's by-laws.

Stockholders' Equity

At 31 December 2002, total stockholders' equity was $2.1 billion, reflecting an increase of $228 million compared to the end of 2001. This increase was the result of paid-in capital contributions from CAF's stockholders and of the addition of the year's net profits. Reserves were $644 million, comprised by the general reserve of $464 million and the mandatory reserve of $180 million (*Graph 4*). It should be mentioned that, by policy, the general reserve is fully invested in high quality short-term instruments.

Although, CAF is not obligated to follow the capitalization guidelines set forth by the Basle Accord on Banking Supervision, management has established a minimum internal policy requirement of risk-adjusted capitalization of 30%. At 31 December 2002, capital represented 31.3% of risk-adjusted assets.

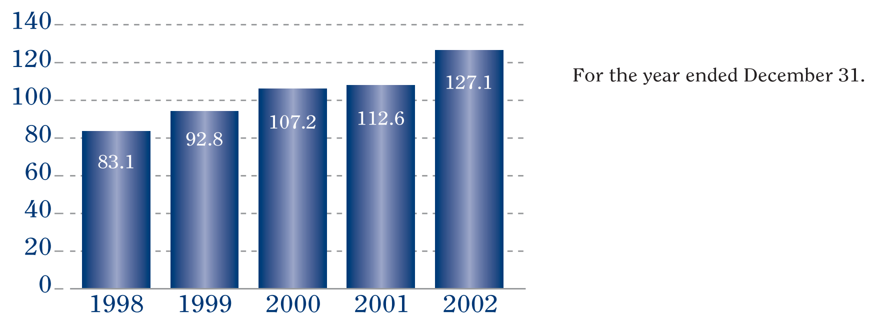
Graph Nº 4 Net worth (US$ Millions)



Results of Operations

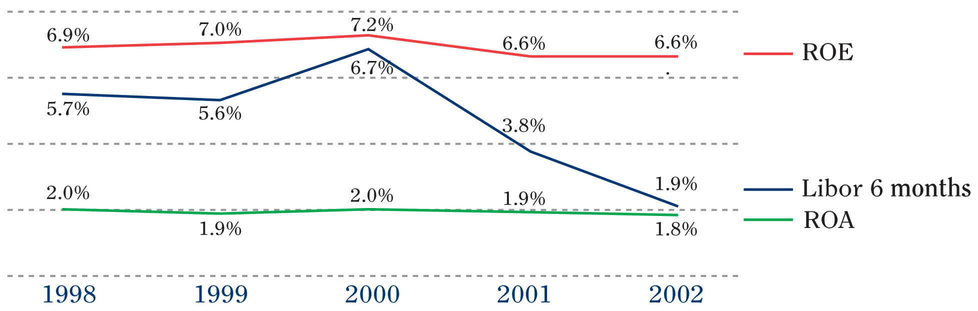
At 31 December 2002, net profits were $127 million, an increase of $15 million or 13% over the results of 2001 (*Graph 5*). Total financial income amounted to $357 million, a decline of $79 million or 17% from the previous year. This decline in financial income is attributable to the general decline in interest rates. This trend in interest rates, on the other hand, had a compensatory effect on financial expenses. At the end of 2002, total financial expenses amounted to $149 million, representing a $87 million or 37% decline when compared to the closing of 2001. Administrative expenses totalled $33 million for the year, representing 0.5% of average total assets.

Graph Nº 5 Net income (US$ Millions)



At 31 December 2002, the net interest margin was 2.9%, compared to 3.3% at the end of 2001. The profitability indicators remained strong with return on average assets (ROA) at 1.8% and return on average equity (ROE) at 6.6% (*Graph 6*).

Graph Nº 6 Profitability ratios



Financial Policies

CAF's asset-liability management principles can be summarized as follows:

• Loans are extended on the same basis, interest rate and currency, as the corresponding borrowings,

• The maturity of assets is closely matched to the maturity of liabilities, to the extent possible, and

• There is no trading in derivatives for the account of CAF and swaps are used solely to hedge interest rate and currency exposures.

At 31 December 2002, 99.3% of assets and 99.1% of liabilities, after swaps, were denominated in US$. Likewise, 95.4% of assets and 95.8% of liabilities, after swaps, were based on six month US $ LIBOR. The average term of financial assets was 4.1 years and of liabilities 3.9 years.

CAF: Toward a new agenda for regional development

CAF: Toward a new agenda for regional development

In light of the complex challenges facing Latin America, as a result of profound changes in the world's economy and the region's vulnerability to adverse external conditions, CAF continued to strengthen its financing role to promote sustainable development and regional integration; to play an anti-cyclical and catalytic role; and to implement *a new regional development agenda*, which encompasses the many economic, social, environmental and institutional factors involved in a context of sustainability and equity, and leads to higher and more sustained growth.

CAF continued its support of regional integration principally by promoting, structuring and financing significant physical infrastructure and logistics projects; supporting the development and integration of the Andean countries' financial systems; and advancing the Andean Competitiveness Program and the Latin American Carbon Program. In addition, CAF coordinated its own efforts with those of others in the search for ways to maximize the benefits derived from globalization and to limit its negative impact. Furthermore, CAF worked to develop an agenda designed specifically to help the region insert itself in a sustainable manner into a global process that is fraught with rapid change and substancial asymmetries.

In CAF's assessment of the progress achieved over the last two decades, it notes the important effects of the economic reforms undertaken by its member countries, but also the persistence of high poverty and unemployment indices, while competitiveness continues to lag behind the requirements of the globalized economy. In order to eliminate such limiting factors, CAF believes the countries must undertake micro-economic reforms that can help bridge the technological gap and enhance the capabilities of their workforces. For similar reasons and by comparable means it is important to enhance competitiveness and to strengthen those national institutions that contribute to democratic governance and citizen participation.

Guided by the above-described considerations, CAF endeavored to provide timely and effective responses to its member countries' requests for financial and technical support. Encouraged by the positive responses received from its clients and shareholders –most notably the decision by the Andean countries' presidents to increase CAF's authorized capital from $3 to $5 billion– the Corporation continued to venture into the many areas that lead to sustainable development. Thus in 2002, in addition to providing direct and catalytic financing, CAF sponsored a number of projects, events, and activities in fields ranging from competitiveness and governance, to social, environmental and cultural sustainability. Some of these are briefly described in what follows.

New shareholders

In 2002 the process to incorporate Argentina, Spain and Costa Rica was further advanced with the completion of formal steps required for them to join the Corporation. Significantly, there was progress in the effort to bring closer together the Andean Community and MERCOSUR, evidenced by the incorporation of Argentina, and the approval of CAF's first loan to Uruguay - aimed at helping its integration with the other MERCOSUR countries through a mega-concession program for highways . The addition of Costa Rica to its membership and its collaboration with the Plan Puebla-Panama enhanced CAF's presence in the Meso-American region, while Spain's incorporation will contribute to strengthen the links between Europe and Latin America. The latter also resulted in immediate benefits in the form of the newly established Spanish Fund for Technical Cooperation, financed by an initial contribution of five million Euros from Spain's Ministry of Economy. By the end of 2002, non-reimbursable operations financed with this fund reached 2.3 million Euros, aimed at supporting regional tourism, environmental programs, tax administration, and small-and-medium enterprises in the Andean countries.

The expansion of its role as an agent for regional integration, the diversification of its loan portfolio and the increase of its capital base owing to the incorporation of new member countries, and to additional capital commitments from Brazil and Uruguay, all contributed to enhance CAF's standing in the international financial community.

Strategic Programs

Adapting to the region's current needs, CAF increased its efforts to advance the *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. Its priority fields are the following:

Programs that support the regional integration process and the development of sustainable infrastructure:
• IIRSA – Initiative to Integrate Regional Infrastructure in South America
• PREANDINO – Andean Program for Risk Prevention and Mitigation
• The Puebla-Panama Development Plan

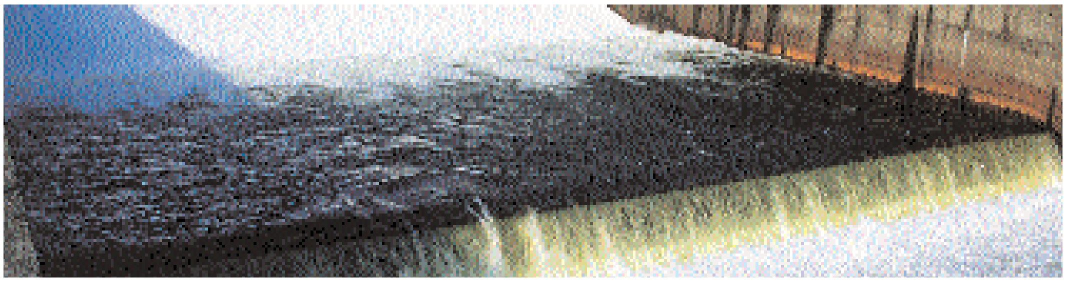
Programs that increase the region's competitiveness:
• PAC – Andean Competitiveness Program
• PAI – Integrated Development Program for Small and Medium Enterprises
• Kemmerer Program for the Development and Integration of Financial Markets
• Research program in development topics

Programs to strengthen CAF's activities in the environmental and social fields:
• PLAC – Latin American Carbon Program
• Sustainable Development Program for Industry and Financial Institutions
• Bio-CAF – Biodiversity Program
• Program for micro-financial institutions
• Sustainable Human Development Program
• Cultural Development Program

Programs to strengthen democratic institutions and governance:
• Governance Program: Ethics and Transparency in Development - Decentralization and Civic Participation – Institutional development - Leadership for Transformation

CAF's agenda and member-countries' priorities

In its programming with the newly-elected governments in Bolivia and Colombia, the Corporation's medium-term strategy has programmed operations amounting to $1.8 billion for the six-year period 2002-2007, and $3.5 billion for the four-year period 2003-2006, respectively. These operations include loans to the public and to the private sector that dovetail with CAF's *strategic programs*. Programming Missions and Country Strategy Documents have become the main tools employed by the Corporation to mesh its work with its partners' national priorities.



Sector lending is being concentrated upon specific areas, thereby increasing CAF's focus and degree of specialization, as well as the intensity of its financial impact. Productive infrastructure and physical integration continue to be paramount, as evidenced by the approval of 23 operations for an aggregate total of $2,009 million in transportation, energy, potable water, sanitation and social infrastructure.

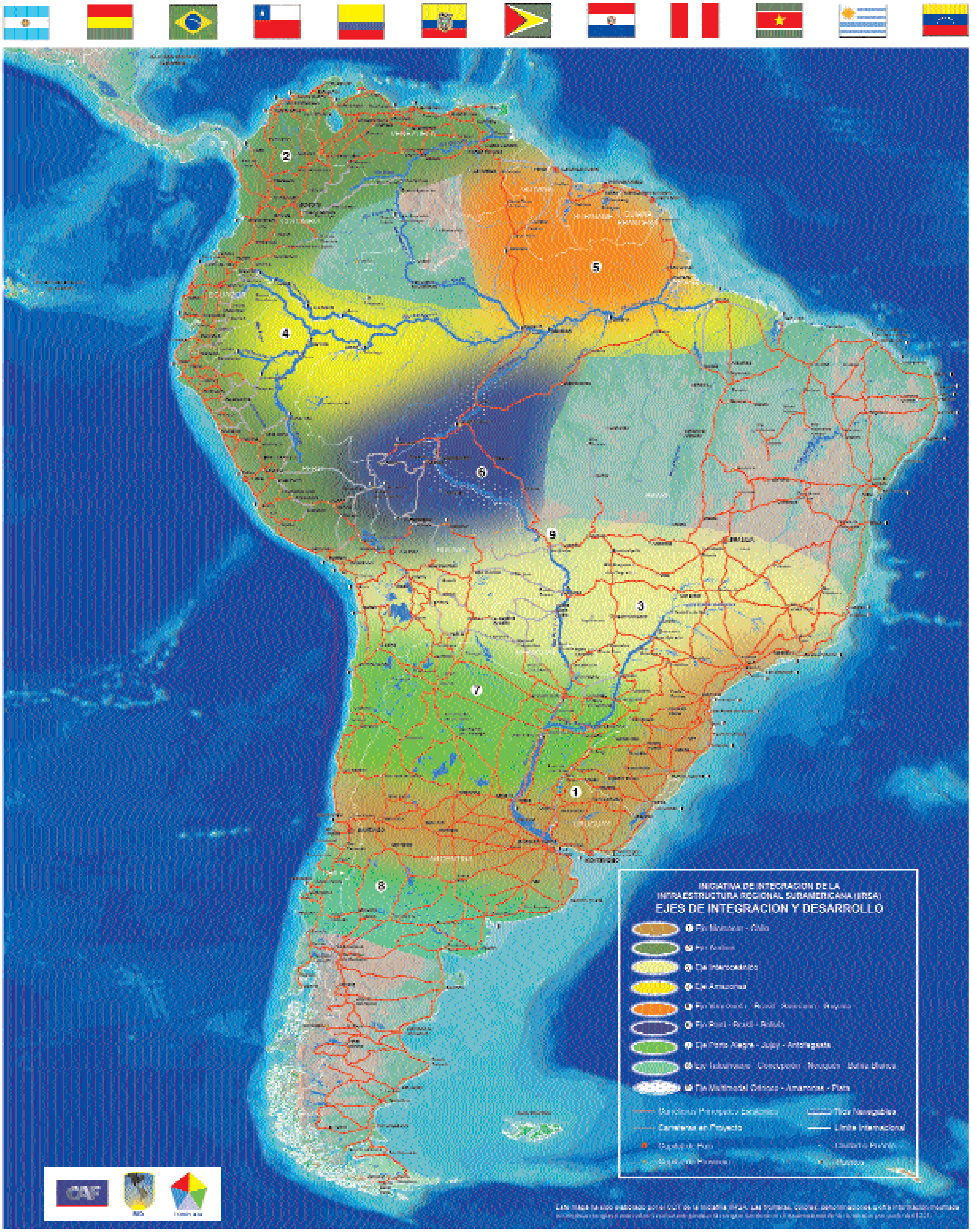
Infrastructure for Integration: The IIRSA Initiative

In 2002 CAF continued working in support of the Initiative to Integrate Regional Infrastructure in South America (IIRSA), in compliance with the mandates of the region's presidents, and in the conviction that physical infrastructure represents a critical element to achieve greater development and higher growth rates. The Corporation's actions in this regard were both technical and financial in nature: some were aimed at improving planning, strengthening institutions, and enhancing coordination among the various agencies involved in the initiative, and others at providing financing for specific projects.

Achievements in 2002 include the celebration in Brasilia of the Executive Management Committee's (CDE) third meeting. At the meeting the twelve South-American countries agreed to develop a strategic regional vision, based on the following principles: open regionalism; a geo-economic perspective based upon integration and development corridors; economic, social, environmental and political-institutional sustainability; greater value-added production; intensive use of modern information technology; regulatory harmonization, and coordination of public and private sectors.

To foster the private sector's most effective participation, deemed critical to the Initiative's success, the governments submitted an action plan consisting of ensuring the preparation and dissemination of information; policy and activity coordination between the national agencies charged with promoting private investment; and the elimination of administrative and legal obstacles to investment. Special emphasis was given to developing innovative mechanisms to finance regional physical infrastructure projects.

Also in 2002, work began on the Sectoral Processes to facilitate cross border integration; to develop operating systems for multi-modal and air transportation; to harmonize regulatory policies regarding power interconnection, technical standards, and norms that govern the expansion of the Internet; financing instruments for regional physical infrastructure projects;


INICIATIVA DE INTEGRACION DE LA
INFRAESTRUCTURA REGIONAL SURAMERICANA (IIRSA)
EJES DE INTEGRACION Y DESARROLLO
Eje Interoceánico
Eje Amazonas
Eje Porto Alegre - Jujuy - Antofagasta
Eje Multimodal Orinoco - Amazonas - Plata
Carreteras en Proyecto
Límite Internacional

normative frameworks for energy markets; and shipping. A significant institutional milestone was achieved with the establishment of a South-American Network of Infrastructure Authorities, which holds regular meetings to maintain a common vision.

As of December of 2002, close to 300 projects have been identified through IIRSA (of which over 140 are ready for immediate execution) with total investment requirements of $23.5 billion over the next five years. More than 60 Initiative-related projects are currently being developed with funding from the international financial institutions on the IIRSA Technical Coordination Committee (IADB, CAF and FONPLATA). Among these are 40 transportation projects, 10 each in energy and telecommunications, 4 in preinvestment, and 3 in institutional and regulatory strengthening.

CAF's own financing within IIRSA, from JUN/2001 through DEC/2002, amounted to $517.8 million for nine projects, as shown in the following table:

Projects approved by CAF in the context of the IIRSA Initiative (in $ million)
(June 2001 to December 2002)

Operation	Amount CAF	Total Amount	Country
• Tarija-Bermejo Highway Program (Bolivia-Argentina connection)	74.8	200.0	Bolivia
• Integration Road Corridor Santa Cruz-Puerto Suarez (Bolivia-Brazil connection)	100.0	350.0	Bolivia
• Transredes Investment Plan (Bolivia-Brazil gas pipeline)	88.0	220.0	Bolivia
• Road Integration Program State of Rondonia (Brazil-Peru-Bolivia connection)	35.0	50.0	Brasil
• Integration Road Corridor Quito-Bogota-Caracas	75.0	110.0	Colombia
• Baeza-Tena Highway (amazonic connection for Ecuador)	25.0	35.0	Ecuador
• Puyo-Macas Highway (amazonic connection for Ecuador)	25.0	25.0	Ecuador
• Southern Road Corridor	70.0	100.0	Ecuador
• Mega-concession Highway Program (connection to Brazil and Argentina)	25.0	135.0	Uruguay
Total:	**517.8**	**1,225.0**	
	42%	100%	

In addition, CAF approved $2.5 million in technical cooperation grants for South-American integration, in support of planning, the preparation of studies, and institutional strengthening activities. Among these are the Ecuador/Colombia and Ecuador/Peru bi-national lectures; private investment promotion along the Ecuador/Peru border; trade relations in the Northern Peru, Brazilian Amazonia and Southern Ecuador region; private investment promotion along the border region/Chapter Peru; development project for the Peru/Bolivia border integration area ; Andean Presidential Summit; IIRSA's Action Plan for 2002-2003, and assessment of the logistics of South America's principal ports.

CAF also supported IIRSA with its contribution to the Second South-American Presidential Summit (Guayaquil, Ecuador, 26-27/JUL/02) at which the heads of state reaffirmed the Initiative's relevance and strategic importance and ratified their strongest support for its implementation. In their view, IIRSA constitutes an appropriate approach to promote economic and social development in South America; to improve the region's international competitiveness, and to better confront the challenges of globalization. Also, they see it as a way to strengthen regional integration and cooperation by expanding markets, helping the countries' policies to converge, and promoting social and cultural integration.

At the Summit the Presidents also expressed their satisfaction with IIRSA's Technical Coordination Committee activities, as summarized in the report submitted by its members (CAF, IADB and FONPLATA) which CAF presented in its capacity as coordinator pro-tempore.

Competitiveness and productivity

The year saw the start of the Andean Competitiveness Program's second phase (PAC II), which aims to disseminate the results of the first phase, implement its recommendations, and establish guidelines for the Andean countries' policies on competitiveness, taking into account the countries' dependence upon natural resources; it also aims to promote specific factors of competitiveness through the execution of projects that produce specific results and generate clear demonstration effects.

PAC II's activities in 2002 may be grouped into five areas:

• *Strategies for Competitiveness*. A strategic alliance was begun between CAF and the Earth Institute of New York's Columbia University, for research leading to the formulation of fiscal and financial policies in countries with abundant natural resources; for the promotion of innovation, and for the provision of institutional strengthening services in the five Andean countries.

• *Development of production clusters*. Projects were started in Bolivia to promote clusters for grapes, wines, singanis, woods and pelts. They are expected to yield concrete development plans and lead to the signing of the Bolivian Agreements for Competitiveness. In Ecuador, PAC is helping the country's universities to provide their consulting services to agricultural and livestock enterprises. In Peru it is fostering the development of clusters for grapes to produce table wines in Ica, including the establishment of an unpublished lecture on grape-growing for wine production, meteorological information systems and international markets. In Venezuela PAC sponsors and supervises the operation of an Excellence Center in Software Engineering (CEISoft) whose work helps to enhance the competitiveness of companies that develop software. Regionally, PAC is participating in the development of a project to improve tourism in the Andean Region.

• *Improving the business climate*. With PAC support the Central Bank of Ecuador has begun a project to simplify export procedures. Also, CAF has sponsored the publication of a book entitled *Cost Venezuela* edited by CONAPRI.

• *Innovation*. PAC is helping to enhance the entrepreneurial capabilities of young university students by means of pre-incubator projects in Ecuador and virtual lectures in Colombia. Electronic commerce projects to promote the growth of exports are being carried out in Bolivia and Peru, while Colombia is receiving support to help it to use information technology to consolidate productivity promotion services. At the regional level PAC is carrying out a study to evaluate the potential for increasing intra-regional trade by electronic means.

• *Institutional Strengthening*. PAC has given support to organizations that promote competitiveness, as in the advisory services provided to the Peruvian government, and in establishing the *Venezuela Does Compete* network. In Ecuador PAC lobbied to include competitiveness promotion topics in the agendas of presidential candidates. In Colombia PAC analyzed the results of seven agreements on export competitiveness, to evaluate the effectiveness of the policies that are being applied.

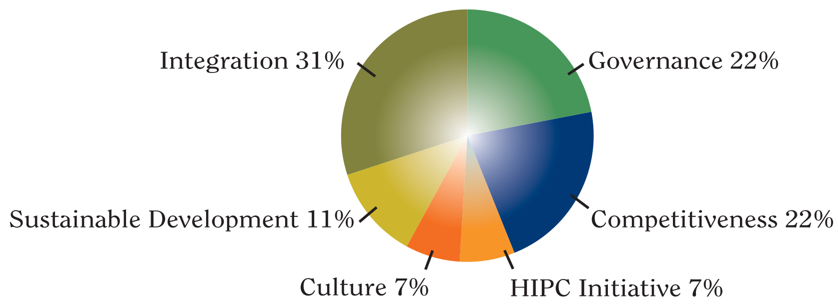
To help reduce the tecnological gap, PAC has initiated a pilot project which consist of a mobile laboratory designed to teach informatics technology to students and teachers in two communities, one in each of Ecuador's Guayas and Bolivar provinces.

Technical cooperation

Technical cooperation funds supported CAF's strategic activities and member countries' programs to strengthen integration and sustainable development in the framework of globalization, competitiveness and governance. Aid was provided to significant projects in regional infrastructure, financial systems, small-and-medium-size enterprises, environment, integration, institutional development, training of human resources, market development, and programs for transparency, consensus building and citizen participation.

Approvals amounted to $14 million in 195 operations, distributed by area as follows: 7% HIPC, 7% culture, 11% sustainable development, 22% governance, 22% competitiveness, and 31% integration.

Approvals of technical cooperation 2002



Integration of financial and capital markets

In 2002, within the framework of the Kemmerer Program for Development and Integration of Financial Markets, CAF consolidated its strategy to create and develop a regional capital market. Together with the chairmen of stock markets operating in the region, and with regulators, brokers and other participants in capital markets, CAF started projects in four areas that are essential to the efficient development of such markets.

• *Availability and transparency of information*. Work started on the design and implementation of the Andean Stock Market Information System (SIBA), scheduled to be in operation by end-2003. Connected via internet, this system will allow investors, potential issuers, analysts and the general public to learn the status and performance of both the consolidated and individual markets, automatically and from anywhere in the World.

• *Design and production of new stock market instruments*. To provide investors with instruments that meet their requirements, CAF has begun the design of a regional security. By being acceptable in every country's market, such an instrument will help to expand the aggregate market and to promote its integration.

• *Training of issuers and investors to help their entry into the capital market*. As part of the effort to stimulate growth of the region's capital markets, progress was made in the training of issuers and investors to help them access the markets. Induction seminars dealing with the functioning and benefits of the markets were held in Bolivia and Peru with attendance by businessmen from over 200 medium-size enterprises, and a workshop for newspaper reporters on corporate governance in Colombia was transmitted by satellite to the remaining regional countries.

• *Definition of regulations and a procedural framework for the operation of the regional stock marke*t. The size and characteristics of the local markets limit their capacity to compete for the resources necessary to finance the development of the respective countries. Gaining access to an expanded market requires having a regulatory and procedural framework that insures its adequate operation. For this reason CAF has been working with stock market regulatory authorities of the five Andean Countries, as well as with the presidents of the stock markets of the region. The latter met for the first time in Caracas, and agreed to develop the norms needed to allow financial products of any one country to be traded in the rest of the region, and to expand investment criteria for institutional investors, so that sovereign instruments issued by any country in the region are accepted in the remaining countries on a par with local ones.

Efforts to harmonize prudential banking regulations criteria across the region continued in 2002 with a meeting of banking superintendents (Cartagena, Colombia, 13/FEB/02), in which agreement was reached on criteria for evaluating and rating investment portfolios, and for determining loan arrearages. It was also agreed to add other topics to the project, such as corporate governance practices, transparency, accounting rules, risk analysis and consolidated supervision. Lastly, seeking to elicit an official position to the proposal to standarize criteria, CAF started to hold meetings in every country with the principal institutional agencies involved: finance ministries, central banks, and banking superintendencies.

Small and medium-size enterprises (SMEs)

In light of the critical importance of SMEs for the recovery and growth of Andean productive sectors, CAF designed a special Support Program for SMEs with several components, including advisory services, equity investment and credit facilities; it also identified a set of key agents, clusters, and possible strategic alliances which could add substantial value to the program. In its first stage, the program identified a number of Andean SMEs, as well as many relevant agencies, institutions, groups and associations with which CAF could form strategic alliances.

The program's integral focus seeks to achieve a more efficient resource allocation to strategic financing, venture capital support, business training, assembly of a sectoral database, and the publicizing of inter-institutional activities. The following pilot projects, designed to help medium-size firms that currently export, and those that show a strong potential for exporting.

• *Strategic alliances with Spanish firms*. Through This project, which is being sponsored by the recently-created Spanish Fund for Technical Cooperation, CAF has identified and is currently evaluating twenty firms in the Andean Community in terms of their degree of competitiveness and exporting potential, as well as their interest in forming strategic alliances with

Spanish firms. A Spanish consulting firm with ample experience in dealing with the SME sector in Latin America has been retained to set the project in motion.

• *Strategic alliances with U.S. firms*. CAF has completed a strategic alliance with U-Penn's Wharton School of Business under which firms from the Andean region will be included in the school's Global Consulting Practicum Program (GPC). The GPC will help design marketing plans to assist Andean firms in gaining and improving their access to the U.S. market.

• *Risk-rating for Colombian SMEs*. This pilot project creates a rating index for 100 medium-size firms, measuring both their risk and their productivity, with which it is expected to improve the firms' access to appropriately priced credit as a function of the actual risk involved in each case.

CAF's self-managed Investment Fund for the Development of SMEs (FIDE) provides equity financing in individual small firms, and takes equity positions in SME-specialized national investment funds. Occasionally FIDE has taken on the role of promoter, by participating in the design of investment instruments to meet specific requirements of the SME market.

FIDE has specialized in providing support to high value-added sectors, that can use innovation, managerial excellence, global strategic alliances and exports to significantly increase their competitiveness, and thereby contribute to industrial development; there include: information and communications technology, medicine and bio-technology, environmental products and services, and technological applications for education and agro-industry.

Strengthening Governance

Within its Governance Program and relevant strategic planning for 2002, CAF continued supporting a series of activities designed to strengthen governance. Among these were operations for decentralization, democratic institution building, training of government leaders and their teams, and promoting ethics and transparency as guiding principles for social agents. These were carried out by means of forums for reflection, seminars, consultancies and training in Bolivia, Colombia, Ecuador, Peru and Venezuela.

Also, together with the George Washington University, CAF continued to implement the *Governance and Political Management Program*, which seeks to strengthen decision-making capabilities at high and middle-levels of government, in order to create a critical mass of professionals able to understand the relationships between political and technical issues. Designed as a three-part course to be provided over the Internet, it relies on activity and participation, combining theoretical and practical elements. Its three parts are: 1) governance and political management, defined as the ability to generate governance processes with impact upon the formulation and implementation of public-sector policies; 2) technical and financial management, which deals with the practical use of management tools for municipal development planning and fiscal programming; and, 3) social management, which introduces elements to assess public sector policies from a social perspective within an integral vision that includes planning, design and social indicators.

Additionally, through the *Andean Program for Institutional Strengthening and Training in Decentralization and Civic Participation*, CAF continued to promote the development of decentralized government institutions (such as mayoralties and municipalities) by providing them with tools to improve their capacity to design effective rules and procedures. These should foster positive interactions among the agents, thereby helping to respond efficiently to the public's demands, to incorporate higher ethics and greater transparency in its work, and to achieve process interaction.

One mechanisms used by this program is the training of national and local governments' staff, as already started in Bolivia, Ecuador and Venezuela through agreements with

Bolivia's Private University del Valle, Ecuador's Catholic University of Santiago de Guayaquil and Pontifical Catholic University of Ecuador, and Venezuela's Catholic University Andres Bello. Other efforts are aimed at helping municipalities to share successful experiences and best practices, and to sponsor seminars and encounters to facilitate closer ties between senior government officials and representatives of civil society.

Prevention and mitigation of risks associated with natural disasters

Continuing with the Andean presidents' mandate of 1999, in 2002 CAF provided institutional strengthening through the Regional Andean Program for Risk Prevention and Mitigation (Preandino).

The following activities were undertaken at the country level:

• Preparation of national and sectoral risk prevention and mitigation plans in four of the five countries, aimed at creating the policy framework for national policies and priorities.

• National seminars designed to promote the incorporation of prevention topics into the management of sustainable development and into the legal frameworks.

• Institutional strengthening at the local level, helping to define institutional frameworks and processes in selected pilot areas.

• Development of scientific knowledge of relevant national phenomena, especially those of seismic, volcanic and hydro-meterological nature.

In addition, 2002 marked the start of regional projects in the field of disaster prevention:

• Progress in implementing a web-based regional institutional platform that will operate as a network.

• Agreements on regional institutional strengthening in the area of public health between CAF/ORAS(CONHU)/PAHO/WHO.

• Progress in negotiations for a memorandum of understanding between CAF and CAN's General Secretariat for the coordination of efforts related to the Andean Committee for Prevention of and Attention to Disasters.

• Support of efforts to define a regional platform by the "El Niño" Phenomenon International Center (CIFEN), and progress toward a common regional focus by the strengthening the planning processes and standardizing methodologies.

• Promotion and international cooperation for the development of priority projects aimed at prevention and related institutional strengthening (with the European Union and with bilateral cooperation agencies such as GTZ, UNDP, OFDA, etc).

At the international level Preandino has shared experiences with other regions in order to contribute and to receive contributions that may help strengthen risk management capabilities in the Andean region. Also, it contributed information on Andean initiatives to a global report on International Disaster Containment Strategy

Social Agenda

The high levels of poverty and unemployment prevailing in the region, its reduced personal income, increased inequality of income distribution, and diminished social services all point to the need for a profound restatement of development strategies. Aware of the significance of these issues, and the high priority assigned to them by the national governments, CAF is increasingly emphasizing its support of sustainable human development and equity.

Micro-financial institutions

This year CAF continued to consolidate its support of existing micro-financial institutions, and added four new clients to its portfolio of sustainable, profitable, and officially regulated and supervised institution. This brings to 28 the number of such institutions receiving CAF's equity investment, loans, and institutional support. In addition, CAF continuously seeks to discuss with the relevant government authorities ways and means to improve micro-financial regulation and its application, thereby promoting the successful operation of these institutions in the region.

CAF also took part in several events fostering the exchange of views and information between micro-financial institutions, and co-sponsored international seminars on best practices in this sector. Indeed, CAF has the largest number of officially regulated micro-financial institutions as clients in Latin America among the multilateral agencies which serve the region.

FONDESHU/ Community projects

Starting in 1997, the Fund for Human Development (Fondeshu) has financed a number of initiatives, providing access to productive capital. With the experience gained over the years it became evident that community entrepreneurs need to be helped to improve their venture's financial structures and technical know-how. This led Fondeshu to support the preparation of feasibility studies for several community enterprises, as in the cases in Ecuador of the Chocó Environmental Plan and the Tuna Cochinilla Project, and Profuver in Colombia. In addition, Fondeshu sponsored the final formulation of the Colombian project that won the First Von Humboldt-CAF Contest on Sustainable Bio-Commerce.

Community projects that received Fondeshu funding in the form of non-reimbursable technical assistance include the Culpina K tourism promotion project in Bolivia, a project to help develop and modernize informatics by the Fe y Alegría Association/MENTOR in Ecuador, and another one with similar characteristics by the Ecopueblo Foundation in Bolivia. Funding was also provided in Colombia to VALLENPAZ's project for displaced farmers, and in Venezuela to CODAMI's project, aimed to develop mini-farm schools.

Three micro-financial institutions were added to CAF's portfolio financed with Fondeshu resources, accounting for $1.5 million out of the total $4 million disbursed by Fondeshu in 2002. The recipients were the Ecuadorian Financial Society and Bank of Pichincha, both in Ecuador, and the World Women's Corporation in Colombia. These newcomers are rated as prime clients in Latin America, and their addition enhances an already diversified and regionally extended portfolio.

FONDESHU operations in 2002 Item	Country	Approved US$
Community Projects		248,876.83
Organización Territorial de Base de Culpina K	Bolivia	97,000.00
Fundación Ecopueblo	Bolivia	6,000.00
Corporación para el Desarrollo y Paz del Valle - VALLENPAZ	Colombia	43,000.00
Asociación Fe y Alegría MENTOR	Ecuador	50,000.00
Corporación de Desarrollo Agrícola (CORDAMI)	Venezuela	41,700.00
Others	Other countries	11,176.83
Microfinance		1,646,900.00
Corporación Mundial de la Mujer - Bogotá	Colombia	500,000,00
Sociedad Financiera Ecuatorial (SFE)	Ecuador	500,000,00
Banco del Pichincha / CREDIFÉ	Ecuador	500,000,00
Caja Municipal de Arequipa	Peru	100,000,00
Seminarios, Conferencias y Publicaciones	Other countries	29,900,00
Others	Other countries	17,000,00
Total		1,895,776,83

Sustainable Human Development Program

This program promotes equity in the sense of improved access by the less-favored groups to economic and social opportunities. Its mission is to strengthen social and human capital, giving particular emphasis to education.

Under this program in 2002 CAF contributed to the *Inter-American Initiative for Social, Ethical and Development Capital*, which is sponsored by the InterAmerican Development Bank (IDB). The two institutions joined in organizing a set of two international seminars: one entitled *Challenges to development ethics* (Buenos Aires University, Argentina, 5-6/SEP/02), with collaborations from the governments of France and Norway; and another, named *Social capital, ethics, and development: the new challenges* (La Paz, Bolivia, 25-26/NOV/02) with collaborations from Bolivia's Catholic University and National Government Program. Technical cooperation resources funded the publication of *The Book of Values*, issued by Venezuela's El Nacional newspaper in 19 inserts, aimed a children, parents and teachers.

As a major feature of its support for human development, CAF has been stressing the importance of education as a means to greater fairness and competitiveness, and therefore promoting the improvement of school systems in the Andean region. In the period 2001-2002, thanks to CAF's efforts in this connection, a set of priority requirements was identified as being both essential and lagging in the region. The most relevant of these include the need to upgrade intermediate and secondary education, combat high grade repetition and drop-out rates at the elementary and middle-school levels, and incorporate science and technology into the curriculum, starting with the elementary level. This approach has received the support of leading experts and public education authorities in the Andean countries.

Social infrastructure

Many of CAF's infrastructure projects, which involve various economic sectors, are directly supportive of the less-favored segments of the population, through such means as improved social services, better roads and greater employment.

Such is the case with the four multi-sector investment programs approved this year for Colombia, Ecuador, Peru and Venezuela, and Bolivia's rural infrastructure sector program. Beyond fostering economic reactivation in the respective countries, these programs will bolster social infrastructure in such sectors as potable water and sanitation, education, public health and rural roads, in response to the social demands of the neediest people.

Programs begun in earlier years, aimed directly at providing for the basic needs of the most vulnerable communities, continued to be implemented in 2002. Such is the case with Ecuador's Hope Plan, and Venezuela's Social Investment and Development Program (Proindes) and its Program for Low-income Communities Development (CIARA). Also under execution were disaster-mitigation efforts, typically most helpful to the poorest people, such as the program of support to the Southern Zone Emergency caused by the Peruvian earthquake, and the program to confront storm-flooding emergencies in Venezuela, as well as CAF's steady prevention and mitigation work through Preandino.

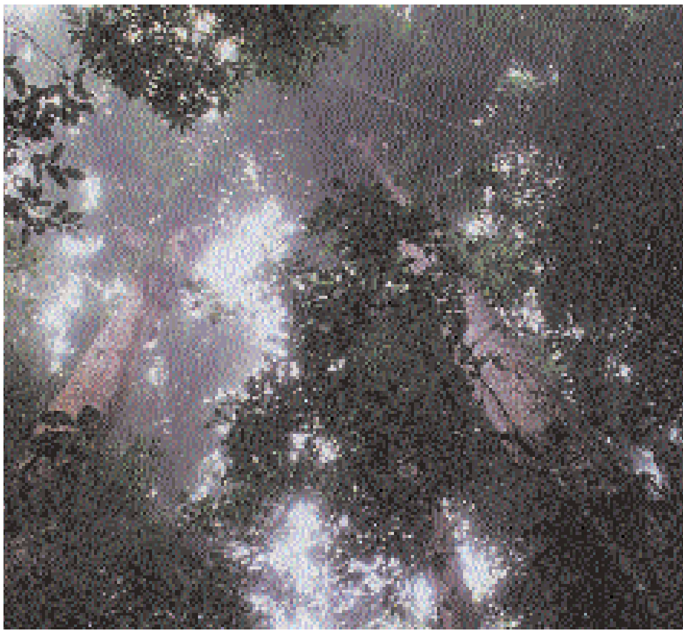
Management of trust funds aimed at poverty alleviation

CAF has acquired wide experience in the management of third-party funds for projects with high social-impact, that seek to alleviate hunger and poverty in the region -- most significantly and successfully, in its capacity as a cooperating institution for the International Fund for Agricultural Development (IFAD) under their 1982 agreement.

The CAF-IFAD agreement provides a general framework for joint action in support of productive rural projects that seek to improve living standards for the poorest communities in developing countries. To date it has been applied in project supervision, and loan and grant administration, concerning IFAD operations in Latin America and the Caribbean, amounting to approximately $300 million. Currently CAF is in charge of the supervision and loan administration activities of 18 projects.

For the past ten years the main responsibility for these projects rested with CAF's Office of Rural Development Operations (OODR-CAF) in La Paz, Bolivia. In 2002, in an effort to better integrate its business area work into its cooperation with IFAD, CAF has re-assigned the main responsibility to its Vice-presidency for Infrastructure, and involved its offices throughout the region. In this manner CAF expects to enhance the application of its experience and know-how in rural projects for the poor, by blending it with that of other Corporation programs, such as Fondeshu and Preandino.

Environmental agenda



CAF participated actively in the World Summit for Sustainable Development, in Johannesburg, South Africa where it signed two new strategic alliance agreements for the promotion of market development, trade and investment, in areas related to the sustainable use of bio-diversity, the provision of environmental services, and the involvement of local communities and individual producers in such activities.

One of the agreements sets in motion the Andean Program for Biotrade CAN/CAF/UNCTAD, within the framework of UNCTAD's Biotrade program. The second, signed by CAF with UNCTAD and the World Resources Institute, sponsors an Investment Forum of small-and-medium size biotrade firms, intended to help selected ones to gain access to loan and venture capital financing as a way of helping to develop these new markets.

Together with ECLAC, UNDP and the government of Mexico, CAF organized a discussion panel, which was chaired by Mexico's President, Vicente Fox. The panel was entitled "Financing and investment for sustainable development in Latin America and the Caribbean: regional prospects for putting into practice the Monterrey Consensus, and the Johannesburg Implementation Plan".

Internally, CAF made substantive improvements to its own procedures for evaluation and supervision of environmental and social aspects in loan operations, by issuing its *Internal Guide for environmental and social management in CAF operations*; its *Tool for the evaluation of environmental, labor and social risks in the industrial sectors*, and its *Manual for the determination of socio-environmental investments related to power transmission lines*.

In support of better environmental information in the region, CAF financed the Andean segment of OLADE's and Calgary University's System for Legal Information on Energy and the Environment for Latin America and the Caribbean (SIEAL). The system contains a database on environmental legislation governing the region's power sector, including the first comparative analysis of the various environmental regulatory frameworks. It thus constitutes a first step toward harmonizing the various countries' regulations, which is of significant importance to commercial integration.

Latin-American Program for Carbon - PLAC

For PLAC 2002 was a year of growth, consolidation and operational focus. Highlights during 2002 include:

• Formalization and initiation *of the CAF-Netherlands CDM Facility (CNFC)*. The first carbon intermediation agreement between a regional multilateral development agency and a carbon buyer: the Government of the Netherlands. The establishment of this facility permits a ready carbon market for up to 10 million tons of CO_2e in Latin America and the Caribbean, generating up to 45 millions EUR in resources to the region.

• Conclusion of the first carbon market study with the Comisión de Integración Energética Regional (CIER), with the objective of identifying quality CDM projects for inclusion in PLAC's portfolio.

• Identification, preparation, development and presentation of four CDM projects to the

CAF Netherlands CDM Facility.

• Continuing support to Andean countries' Environment Ministries, by sponsoring events and providing consultancy services aimed at the institutional strengthening of the public sector in the area of the emerging climate change markets.

• Participation in the Eighth Annual Meeting of the Conference of Parties (COP 8) in New Delhi, India, where PLAC participated in various forums, exchanging experiences and supporting shareholder country delegations.

Biodiversity Program - Bio-CAF

Through this program CAF has succeeded in generating within the Andean region, a mechanism for promoting of investment and trade in biodiversity products and services, through the application of good environmental and social practices.

Some of its major achievements in 2002 were:

• Technical working groups, and, in partnership with CAN, production of a first set of specialized documents for negotiators and decision-makers. These are aimed at those who participate in key international forums on the subject of bio-diversity, with a view to energize the Andean region's comparative and competitive advantages in the field.

• Start-up of the Andean Biotrade program, previously designed during the World Summit in Johannesburg in September 2002. This program has supported the establishment of National Biotrade Programs which facilitate the generation of sustainable businesses among entrepreneurs and local communities in the Andean Countries. This program provides public information regarding access to markets and technical issues related to productive systems. It also provides support in the generation of business and management plans, information about financial tools available and projects that promote the exports of biodiversity products for international markets.

• Support given to the First Encounter of Eco-tourism Enterprises, held in Venezuela.

• Design and initiation of work on two studies to identify potential markets for biotechnology, which is a sector that holds great economic promise in the Andean region. The studies are to be carried out by CAF jointly with ECLAC and an international consulting firm. They will seek to identify international market segments, existing research capabilities in the region, and appropriate courses of action for market development.

• Sponsorship of the First International Bio-technology Seminar (Bogotá) and the International Seminar on Bio-security (Cartagena), attended by a large number of representatives from the Andean countries.

Program for Sustainable Development in Financial Institutions

Highlighting its leadership in the area of sustainable development in the region, this year CAF was chosen to chair the recently created Latin American Task Force (LATF) of UNEP's Financial Institutions' Initiative. The work of the Task Force will involve generating an exchange of ideas and practices on sustainable development among a significant number of financial organizations.

Since CAF works as a second-tier lender, it plays an important role in assisting financial intermediaries to better understand and handle environmental and social risks and opportunities, and thus to become stronger and more socially responsible institutions. In this connection CAF took part in the annual meeting on Financial Institutions and Sustainability, which was held in Rio de Janeiro, as a preamble to the World Summit on Sustainable Development in Johannesburg.

The publication of *Environmental Sustainability and Financial Management,* which discusses four case studies in Latin America, was launched in Quito-Ecuador last September.

Cultural agenda

A strategic component in the process of development and regional integration, culture nurtures a shared history, the human roots and soul of the region, and the recognition of its common identity. Thus, it can evolve into a productive tool in the process of learning social customs, participatory values and solidarity. In that context, CAF's cultural activities have been assigned a high level priority, and represent a commitment toward human development, highlighted by universal themes in music and traditionally autochthonous ones in artisanship. The success achieved to date has been due, in good measure, to the recognition and reinforcement of the target population's self-esteem. It has meant enhancing the self-esteem of children, youngsters, and women in vulnerable sectors, helping them to build and create.

Activities in the field of music began in 2000 with the founding of the Andean Countries' Youth Symphony Orchestra, made up of 160 children and youngsters from Bolivia, Colombia, Ecuador, Peru and Venezuela. The orchestra has contributed significantly to improving the living standards and opportunities for its members, but more importantly, it has meant a step forward in the process toward integral development, wherein economic and human factors are kept in balance. In October 2002 the orchestra performed a gala concert in Bogotá, Colombia, billed as the *Concert for Peace*. Its theme was that of a culture of peace, which cherishes coexistence, justice, and dialogue as pillars of democracy, and generates feelings of citizenship and identity.

A special contribution to the concert's success was the yearlong work of the Itinerant Andean Conservatory (CAI), a one-of-its-kind institution, which CAF created as an expression of its integrationist calling. CAI seeks to instruct young people in the arts of musical composition and performance, thus fostering a better future for the region.

In 2002 CAF produced three musical workshops on instrumental instruction in the five Andean countries. The workshops were designed for children and youngsters from low-and-middle income families, as well as for local instructors, who can later spread the program's benefits.

To complement the orchestra, and to stimulate the tremendous capacity to improve both body and spirit through vocal music, CAF founded the Andean Voices Choir (VAC), which has become an added tool in the struggle against the marginalization of Andean children and youngsters.

On a different track, this year CAF gave ample support to the artisan sector, which it regards as representing the synergy of identities, values, and tradition. Searching for ways to promote and increase the competitiveness of this sector at the regional level, CAF convened a number of outstanding artisans from the five Andean countries to a First Encounter. The gathering became a showcase for the best that the region produces in every style –indigenous, popular and contemporary– and the first step in a promotion and marketing campaign. It was preceded by thought provoking training workshops in each Andean country, which generated discussions and studies on this sector. Taking active part in the Encounter were the member countries' ministries of commerce and production, export promotion and finance agencies, and foundations and other non-profit organizations.

Also this year CAF contributed to the publication of a book of acceptance speeches by Nobel Peace Prize winners. This publication seeks to inspire a regional reflexion on pacifist message and to contribute to develop a collective awareness of peace and coexistence.

In 2002 CAF's Art Gallery and its Antonio José de Sucre Auditorium, which are the areas devoted to cultural events in the headquarters building, hosted four main exhibits showcasing the organization's integrationist spirit through the plastic arts. The exhibits were: *The soul of integration*, with the works of 68 artists from Colombia, Mexico and Venezuela; *XX Century Argentinean painters*; *The Luisa Palacios bi-annual exhibit of graphic miniatures*, which gathered 90 graphic artists from a number of countries, and had as special guests 15 master artists from CAF member countries; and, *Of masks and other memories*, a rare showing of South-American ritual masks, with expert lectures and workshops on this ancestral art form. Meanwhile, the Auditorium produced a varied musical program with performers from a number of countries, including concerts of Latin American and Caribbean music played on typical regional instruments, as well as classical music concerts.

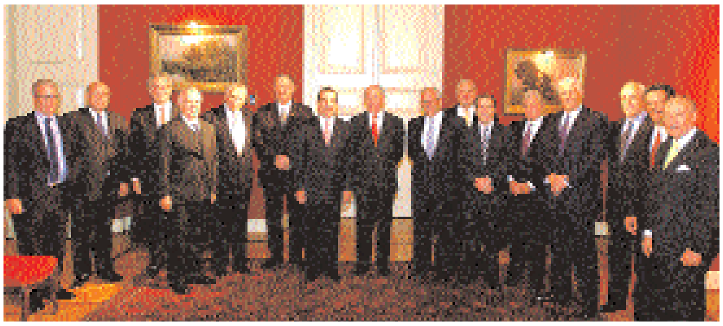
Promoting the region

Seminars and events

To advance its own business agenda, and to promote the region before international investors, in 2002 CAF participated in a number of events and integration seminars, including several either organized or sponsored by it. The more outstanding ones were the following:

• *The Andean Surprise: A CEO Summit (FEB/02)*. A conference conducted jointly with Foreign Policy Magazine, at which a large gathering of leaders of international finance, diplomacy, and multinational corporations active in the Andean countries learned about regional success stories, and discussed challenges and scenarios that might serve as a conceptual basis for the region's growth and development.

• *Second Encounter of Former Latin American Presidents (APR/02)*. CAF contributed to organizing this encounter, which was held in Santiago de Chile. Its purpose was to foster thinking and discussion on a number of different scenarios that might lead to a common social agenda for Latin America over the coming 20 years. Through encounters of this kind CAF seeks to devise a regional development agenda that can help Latin America's performance on the stage of global competition.



Second Encounter of Former Latin American Presidents

• *Sixth Annual Conference of Trade and Investment in the Americas (SEP/02)*. Following an established tradition, CAF organized this event jointly with the Inter-American Dialogue, as a platform for discussion and analysis of economic and political topics with U.S. policy-makers, focusing on issues of special interest to the countries in the Western Hemisphere. U.S. and Latin American speakers at the conference were of the highest academic and political levels.

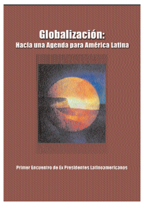
• *First Entrepreneurial Encounter in Russia/CAN (21-22/MAR/02)*. Billed as Russia and the Andean countries: a great business opportunity, and held in Moscow, this event sought to share information, open communication channels, and expand relations, as a way of promoting access to opportunities for reciprocal trade. Twenty-five Andean businessmen took part in the encounter, and they averaged between eight and ten interviews with Russian importers.

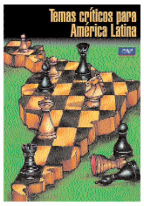
• *Andean Competitiveness Forum (18-19/JUL/02)*. Among the many activities regarding this topic, in which CAF participated during 2002 through the Andean Competitiveness

Program, the most important one was the forum held in Santa Cruz, Bolivia, co-sponsored by CAF and the World Bank, the IADB, and the United Kingdom's International Development Department.

• *Seminars for reporters and editors of public media*. In 2002 CAF organized a number of seminars intended facilitate the exchange of views and information between reporters and editors in the region concerning the sustainable development agenda, and thereby to garner public support for this agenda. One such event, held in Caracas, Venezuela, was the III Seminar for Economic Editors, attended by 32 editors and editors-in-chief of the principal Latin-American media organizations. Another, the First seminar on the news media and the fight against corruption in Latin America, was held in Cartagena, Colombia, and attended by 40 investigative reporters from the region. It was organized jointly by CAF and the Foundation "Nuevo Periodismo". Lastly, in the framework of the Iberian-America Summit of Heads of State and Government, held in the Dominican Republic, CAF co-sponsored the VIII Euro/Latin-American Communication Forum on Iberian-America and Sustainable Development, which was attended by 35 reporters.

Publications



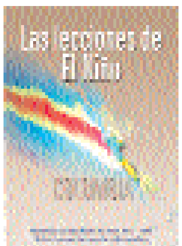


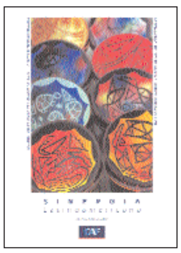
Many important publications saw the light this year, designed to report CAF's work and to present studies of interest to the region. As part of its effort to devise a new development agenda for the region, through forums and seminars with notable participants from within and outside the region, CAF has fostered thinking on a number of topics that bear on sustainability. Two of the books that were published in 2002 gather some of the thoughts thus generated, and help set the stage for future cooperation. One is the product of the First Encounter of Former Presidents, *Globalization: toward an agenda for Latin America*. The second, titled *Critical Topics for Latin America*, contains a set of studies by a group of CAF economists, and represents a first attempt to systematize the debate.

Also published this year was the *Report by the Technical Coordination Committee of the IIRSA Initiative*, concerning infrastructure, which was presented at the II Meeting of South American Presidents held July 26 and 27 in Ecuador. In addition, CAF published an information booklet on "PREANDINO", and Colombia's volume of the set *Memoirs of the 1997-1998 El Niño Phenomenon: Challenges and Proposals for the Andean Region*, with the last volume in the series of six due to be published in 2003, containing a region-wide view.

This year's publications concerning competitiveness and sustainable development are summarized earlier in the Chapter. Additionally, in the economic studies area, CAF published the booklet *Economic Statistics 1997-2002*, which is kept up-to-date in a digital version.

As a final note on publishing activities, the magazine *Sinergia*, produced for public distribution, completed its second year with issue No.6, focused on providing reliable information about the factors that make the region competitive, integrated, and sustainable in its development programs.





Support for regional research

This year saw the second edition of CAF's Prize for Technological Research (JUL/02), which went to Colombian engineer Alex Bustillos in recognition of his valuable contributions to agricultural technology, and of the significant socio-economic impact of his work to improve the Andean region's coffee sector. In this way CAF acknowledges the work of contributors of new technology and know-how, aimed at resolving economic and social problems faced by the Andean countries.

Also in 2002, the first stage of the Program in Support of Research into Development Topics was completed. It was aimed at supporting local researchers engaged in such topics, and to provide CAF with new elements for its action program. The program's first meeting yielded over 70 proposals from 13 countries, on themes such as lowering trade barriers, technology and salaries, pension reform, financial crisis and the corporate sector, social capital and public policy, intellectual property rights, commercial integration, and regional and rural development. In addition to convening the second round of the program on *How to restart growth in Latin America?*, this year CAF began to publicize the results of the first stage through roundtables with the region's policy-makers, to help their decision processes and to promote dialogue between the academic and public sectors.

Institutional Aspects

The Corporation's activities, and the projection of its future activities, demand that it maintain a continuous program for institutional modernization and improvement, thereby enabling it to confront successfully the new challenges that may arise. The following highlights the most significant aspects of this year's institutional evolution.

To respond to the growing demand for technical and financial expertise, which governments and private firms require to search for appropriately structured financing and to gain access to the various capital markets, CAF has established a new *Vice-presidency for Investment Banking and Financial Consulting*. That office will identify, promote and generate business opportunities with public and private sector clients in the member countries.

Seeking to continue to improve administrative efficiency, strengthen internal coordination, and lower operational risks, the Corporation initiated this year a revision of certain operational and management procedures in a number of areas.

In the human resources area, efforts continued to strengthen and to enhance basic management systems, with a view to bringing them up to the level of best international practices, seeking to align individual capabilities of staff with critical skills needed for CAF's successful performance. Of special significance is the progress made in the area of compensation, with the improvement of the salary matrix and related procedures, to ensure that the Corporation remains fully competitive to attract and to retain highly competent staff. Progress was also achieved in the area of professional development and training with the design and implementation of a comprehensive training plan, aligned with yearly individual goals and based on the "in company" approach. Also worth highlighting is the adoption of novel mechanisms for the transfer of information, and best practices in the management of human resources all part of the efforts to strengthen managerial capability.

Some of the year's more significant activities in the area of technology and information systems were aimed at improving and modernizing telecommunications and connectivity services, in accordance with the Corporation's requirements, and to provide the platform for the business's operational continuity.

Efforts continued to develop the Integrated Risk Matrix, which produced an innovative tool used to prepare a diagnostic of operational risks within each of the Corporation's units.

Communications both within the Corporation and with the outside were strengthened as well. Of particular note in this regard is the completion of a study on Brand Management, which served to set criteria regarding the Corporation's external image, and provided the informational basis needed to adjust communication strategy so as to achieve the desired positioning.

Lastly, efforts to improve and recondition the Corporation's workspace continued this year at headquarters, in order to provide staff and visitors with a modern and comfortable environment consistent with the institution's image, and adhering to accepted standards of safety and security. The work to improve CAF's Representation Office in Lima was completed, as were the arrangements to purchase new spaces for the Regional Office in Bogotá.


Culture
Strengthens values and identity
Culture
Promotes civic consciousness and responsibility
Culture
Facilitates self-management and empowerment of individuals and communities
Corporación Andina de Fomento
Committed to Culture as a priority of sustainable development and regional integration
CAF
AMÉRICA MESTIZA
Culture
Reduces conditions of exclusion of peoples from deprived sectors of our society

Clients, products and services

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

CAF's clients

CAF makes 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.

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, on-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.

Guarantees

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

Equity Investments

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

To assist with the special needs of small-and-medium size firms, CAF has established a 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.

Treasury Products

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

Technical Cooperation

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

Technical assistance operations are channeled toward 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 artisan 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 to the neediest rural sectors and to promote productive community development projects that have innovative components and a high demonstration effect. FONDESHU's resources are also used to finance selected micro-financial organizations, and to aid their institutional strengthening efforts.

Other services

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 and 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 Ministry of Economy of the Kingdom of Spain, aimed at funding preinvestment projects in integration, institutional reform, infrastructure, energy, social development and environmental protection.

Strategic programs

CAF participates in many regional programs, some of its own design and creation. These programs cover a wide range of activities, providing additional opportunities for CAF to promote sustainable economic development and regional integration in infrastructure, competitiveness, human development, environmental sustainability, and the strengthening of governance.

Financial statements

Financial Statements
With Independent Auditors' Report

Report of the auditors to 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, 2002 and 2001, 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, 2002 and 2001, 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.

As discussed in note 1(k) to the financial statements, effective January 1, 2001, the Corporation changed its method of accounting for derivative instruments to conform with Statement of Financial Accounting Standards (SFAS) No.133, "Accounting for Derivative Instruments and Hedging Activities", as amended.

January 24, 2003

Caracas, Venezuela

KPMG Alcaraz Cabrera Vázquez
Firma Venezolana miembro de
KPMG Internacional, una asociación Suiza no operativa

Balance sheets, December 31, 2002 and 2001

(Expressed in thousands of U.S. dollars)

Assets	Note	2002	2001
Cash and due from banks		1,740	2,744
Deposits with banks	2	702,139	606,965
Securities purchased under resale agreements		25,000	-
Marketable securities		-	-
Trading	3	540,482	371,294
Held-to-maturity (market value of US$127,713 in		-	-
2002 and US$238,874 in 2001)	3	129,595	238,006
Loans	4	6,062,407	5,455,156
Less allowance for losses	4	196,344	176,965
Loans, net of allowance for losses		5,866,063	5,278,191
Equity investments	5	117,228	120,152
Interest and commissions receivable		143,172	133,181
Property and equipment	6	9,881	9,466
Other assets		48,888	44,741
Total assets		7,584,188	6,804,740

Liabilities and Stockholders' Equity	Note	2002	2001
Deposits	7	228,425	528,270
Securities sold under repurchase agreements	3	-	33,958
Commercial paper	8	501,021	491,671
Advances and short-term borrowings		546,432	670,279
Bonds	9	3,278,462	2,562,578
Borrowings and other obligations	10	463,745	511,748
Accrued interest and commissions payable		106,137	96,564
Accrued expenses and other liabilities	11	406,244	84,082
Total liabilities		5,530,466	4,979,150
Subscribed and paid-in capital (authorized capital US$5,000 million in 2002 and US$3,000 million in 2001)			
Series "A" shares		6,000	6,000
Series "B" shares		1,099,965	1,018,755
Series "C" shares		64,555	48,575
		1,170,520	1,073,330
Additional paid-in capital		112,094	89,158
Reserves		644,002	554,665
Retained earnings		127,106	108,437
Total stockholders' equity	12	2,053,722	1,825,590
Total liabilities and stockholders' equity		7,584,188	6,804,740

See accompanying notes to the financial statements.

Statements of income. Years ended December 31, 2002 and 2001

(Expressed in thousands of U.S. dollars)

	Note	2002	2001
Interest income			
Loans		292,907	358,848
Investments and deposits with banks		28,513	50,977
Total interest income		**321,420**	**409,825**
Interest expense			
Deposits		6,420	20,137
Commercial paper		9,823	5,783
Advances and short-term borrowings		12,028	18,082
Bonds		97,780	156,108
Borrowings and other obligations		14,840	28,608
Total interest expense		**140,891**	**228,718**
Net interest income		180,529	181,107
Provision for loan losses	4	41,500	38,756
Net interest income, after provision for loan losses		139,029	142,351
Non-interest income			
Commissions		30,869	21,938
Impairment charge for equity investments	5	(5,062)	(14,244)
Dividends and equity in earnings of investees		4,468	4,392
Other income		1,054	1,187
Total non-interest income		**31,329**	**13,273**
Non-interest expenses			
Commissions		7,693	7,169
Administrative expenses		32,805	34,557
Other expenses		2,754	1,027
Total non-interest expenses		**43,252**	**42,753**
Income before cumulative effect of change in accounting for derivatives and hedging activities		127,106	112,871
Cumulative effect of change in accounting for derivatives and hedging activities		-	(307)
Net income		**127,106**	**112,564**

See accompanying notes to the financial statements.

Statements of stockholders' equity. Years ended December 31, 2002 and 2001

(Expressed 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 stock-holders' equity
Balances at December 31, 2000		**990,495**	**36,606**	**337,538**	**158,120**	**495,658**	**102,476**	**1,625,235**
Capital increase, net of stock dividends	12	82,835	52,552	-	-	-	(21,596)	113,791
Net income		-	-	-	-	-	112,564	112,564
Appropriated for general reserve	12	-	-	48,307	-	48,307	(48,307)	-
Appropriated for reserve pursuant to Article No. 42 of by-laws	12	-	-	-	10,700	10,700	(10,700)	-
Distributions to stockholders' funds	13	-	-	-	-	-	(26,000)	(26,000)
Balances at December 31, 2001		**1,073,330**	**89,158**	**385,845**	**168,820**	**554,665**	**108,437**	**1,825,590**
Capital increase, net of stock dividends	12	97,240	22,972	-	-	-	-	120,212
Treasury stock	12	(50)	(36)	-	-	-	-	(86)
Net income		-	-	-	-	-	127,106	127,106
Appropriated for general reserve	12	-	-	78,437	-	78,437	(78,437)	-
Appropriated for reserve pursuant to Article No. 42 of by - laws	12	-	-	-	10,900	10,900	(10,900)	-
Distributions to stockholders' funds	13	-	-	-	-	-	(19,100)	(19,100)
Balances at December 31, 2002		**1,170,520**	**112,094**	**464,282**	**179,720**	**644,002**	**127,106**	**2,053,722**

See accompanying notes to the financial statements.

Statements of cash flows. Years ended December 31, 2002 and 2001

(Expressed in thousands of U.S. dollars)

	Note	2002	2001
Cash flows from operating activities			
Net income		127,106	112,564
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Provision for loan losses	4	41,500	38,756
Impairment charge for equity investments	5	5,062	14,244
Equity in earnings of investees		(1,861)	(2,480)
Amortization of deferred charges		1,889	1,370
Depreciation of property and equipment	6	2,124	1,793
Provision for employees' severance benefits		3,801	3,195
Employees' savings plan		1,664	1,864
Net changes in operating assets and liabilities			
Securities purchased under resale agreements		(25,000)	-
Net loss on sale of trading securities	3	1,413	59
Severance indemnities paid or advanced		(453)	(760)
Employees' savings plan paid or advanced		(485)	(943)
Trading securities	3	(169,188)	93,908
Interest and commissions receivable		(9,991)	24,601
Other assets		(5,828)	(352)
Accrued interest and commissions payable		9,573	(9,629)
Accrued expenses and other liabilities		3,812	17,549
Total adjustments		**(141,968)**	**183,175**
Net cash provided (used in) by operating activities		(14,862)	295,739
Cash flows from investing activities			
Purchases of held-to-maturity securities	3	(663,172)	(785,826)
Maturities and prepayments of held-to-maturity securities		771,583	831,037
Loan origination and principal collections, net	4	(629,547)	(989,946)
Purchases of equity investments	5	(277)	(948)
Purchases of property and equipment	6	(2,304)	(1,816)
Net cash used in investing activities		**(523,717)**	**(947,499)**
Carried forward		**(538,579)**	**(651,760)**

Statements of cash flows. Years ended December 31, 2002 and 2001

(Expressed in thousands of U.S. dollars)

	Nota	2002	2001
Brought forward		(538,579)	(651,760)
Cash flows from financing activities			
Net (decrease) increase in deposits		(299,845)	10,489
Net change in securities sold under repurchase agreements		(33,958)	33,958
Net increase in commercial paper		9,350	191,671
Net (decrease) increase in advances and short-term borrowings		(123,847)	275,607
Proceeds from issuance of bonds	9	1,354,435	609,109
Repayment of bonds		(326,141)	(386,480)
Net change in borrowings and other obligations	10	(48,271)	9,112
Distributions to stockholders' funds	13	(19,100)	(26,000)
Capital increase, net of stock dividends	12	120,126	113,791
Net cash provided by financing activities		632,749	831,257
Net increase in cash and cash equivalents		94,170	179,497
Cash and cash equivalents at beginning of year		609,709	430,212
Cash and cash equivalents at end of year		703,879	609,709
Consisting of :			
Cash and due from banks		1,740	2,744
Deposits with banks		702,139	606,965
		703,879	609,709

See accompanying notes to the financial statements.

(1) Significant Accounting Policies

(a) Description of Business

Corporación Andina de Fomento ("CAF" or the "Corporation") commenced operations on June 8, 1970 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 Brazil, Chile, Costa Rica, Jamaica, Mexico, Paraguay, Panama, 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 Statement Presentation

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

In preparing consolidated 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 in foreign exchange are included in the results of operations, and are not significant.

(d) Cash and Cash Equivalents

The Corporation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. As of December 31, 2002 and 2001 the cash equivalents included on the balance sheet were held in the form of cash, due from banks and deposits with banks.

(e) Marketable Securities

Marketable securities at December 31, 2002 and 2001 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 in which the Corporation has the ability and intent to hold the security until maturity.

Trading securities are recorded at fair value. Unrealized holding 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 origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time a private sector loan is 90 days delinquent (180 days for public sector loans) 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 payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

(g) Equity Investments

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 investments 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 established when losses are estimated will occur 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 allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000; the Corporation adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. In accordance with the transition provisions of SFAS 133, the Corporation recorded on December 31, 2001 a cumulative-effect-type adjustment of US$307,410 charged to income to recognize at fair value all derivative contracts that were previously designated as fair value hedging instruments.

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 designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

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

Prior to the adoption of SFAS No, 133, the Corporation entered into interest rate and foreign exchange swap agreements to reduce its exposure to market risks from changing interest and foreign exchange rates. For these swaps, the differential to be paid or received was accrued and recognized in the statement of income. If a swap was terminated prior to its maturity, the gain or loss was recognized over the remaining original life of the swap if the item hedged remained outstanding or immediately, if the item hedged did not remain outstanding. If the swap was not terminated prior to maturity, but the underlying hedged item was no longer outstanding, the interest rate swap was marked to market and any unrealized gain or loss was recognized immediately.

(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	
	2002	**2001**
U. S. dollars	690,959	599,557
Other currencies	11,180	7,408
	702,139	**606,965**

(3) Marketable Securities

Trading securities

A summary of trading securities follows (in thousands of U.S. dollars):

	Amount	Average maturity (years)	Average yield %
At December 31, 2002			
U. S. Treasury Notes	39,503	1.09	1.62
Bonds of other governments and entities	265,889	1.81	2.66
Financial institutions and corporate securities	235,090	1.98	2.12
	540,482	1.83	2.35
At December 31, 2001			
U. S. Treasury Notes	9,042	1.83	2.49
Bonds of other governments and entities	210,484	1.30	2.91
Financial institutions and corporate securities	151,768	1.81	2.57
	371,294	1.52	2.76

Held-to-Maturity Securities

A summary of held-to-maturity securities follows (in thousands of U.S. dollars):

	Amortized holding	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At December 31, 2002				
Bonds of other governments and entities	49,401	12	(1,542)	47,871
Financial institutions and corporate securities	80,194	-	(352)	79,842
	129,595	12	(1,894)	127,713
At December 31, 2001				
Bonds of other governments and entities	46,090	740	(44)	46,786
Financial institutions and corporate securities	191,916	376	(204)	192,088
	238,006	1,116	(248)	238,874

Held-to-maturity securities mature as follows (in thousands of U.S. dollars):

	December 31	
	2002	**2001**
Remaining Maturities		
Less than a year	100,470	195,968
Between one and two years	29,125	42,038
	129,595	238,006

At December 31, 2001, the funds received from securities sold under repurchase agreements of US$33,958,000, reflected as liabilities in the balance sheet, were secured by marketable securities with a carrying value of US$34,000,000.

(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	Otros	Total
At December 31, 2002							
Loans	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							6,062,407
At December 31, 2001							
Loans	519,837	1,303,697	1,116,789	1,082,084	1,040,985	389,240	5,452,632
Fair value adjustments on hedging activities							2,524
Carrying value of loans							5,455,156

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, 2002 and 2001, loans in other currencies were granted for an equivalent of US$3,345,000 and US$7,098,000, respectively, principally in deutschemark, yen, french francs, euros and belgian francs. At December 31, 2002 and 2001, loans include fixed interest rate loans of US$268,803,000 and US$287,707,000, respectively.

The loan portfolio's average yield of loans disbursed and outstanding are summarized below (in thousands of U.S. dollars):

	December 31, 2002		December 31, 2001	
	Amount	Average yield (%)	Amount	Average yield (%)
Loans	6,062,582	4.93	5,452,632	5.66

Loans by industry segments are as follows (in thousands of U.S. dollars):

	2002	%	2001	%
Agriculture, hunting and forestry	318,703	5	192,864	4
Exploitation of mines and quarries	4,000	1	4,320	1
Manufacturing industry	251,083	4	305,134	6
Supply of electricity, gas and water	1,162,714	19	1,052,496	19
Transport, warehousing and communications	1,835,405	30	1,419,747	26
Commercial banks	500,976	8	676,297	12
Development banks	589,103	10	489,925	9
Social and other infrastructure programs	1,339,502	22	933,194	17
Other activities	61,096	1	378,655	6
	6,062,582	100	5,452,632	100

Loans mature as follows (in thousands of U.S. dollars):

	December 31	
	2002	2001
Remaining maturities		
Less than one year	757,684	863,080
Between one and two years	741,574	697,335
Between two and three years	707,041	674,770
Between three and four years	813,628	745,473
Between four and five years	765,172	738,981
Over five years	2,277,483	1,732,993
	6,062,582	5,452,632

At December 31, 2002 and 2001, all loans were performing except for certain loans which were classified as impaired and were in nonaccrual status. At December 31, 2002 and 2001, the carrying value of impaired loans was approximately US$29,344,000 and US$33,792,000 respectively. The average recorded investment in impaired loans during the years ended December 31, 2002 and 2001 was approximately US$38,902,000 and US$42,028,000, respectively.

Had these loans not been in impairment status, income for the years ended December 31, 2002 and 2001 would have increased by US$3,057,000 and US$3,624,000, respectively. During the years ended December 31, 2002 and 2001, there were interest collections against impaired loans amounting to US$353,000 and US$3,408,000, respectively.

Loan Participations and A/B Loans

During 2002, the Corporation received funds from commercial banks amounting to US$12,151,000, for loans which were sold by the Corporation to the banks without recourse. These participations are administered by the Corporation on behalf of the participants.

Also, the Corporation administers loan participations provided to clients, and assumes the credit risk only for that portion of the loan corresponding to the Corporation. During 2002 and 2001, the Corporation administered loans of this nature whereby other financial institutions provided funds amounting to US$120,000,000 and US$525,000,000, respectively.

Allowance for Losses

Movements of the allowance for losses follow (in thousands of U.S. dollars):

	December 31	
	2002	**2001**
Balance at beginning of year	**176,965**	**153,757**
Provision charged to results of operations	41,500	38,756
Recoveries	728	64
Loans charged off	(22,849)	(15,612)
Balances at end of year	**196,344**	**176,965**

(5) Equity Investments

A summary of equity investments follows (in thousands of U.S. dollars):

	December 31	
	2002	**2001**
Direct investments in companies (including investments accounted for using the equity method of US$6,284 and US$7,182, at December 31, 2002 and 2001, respectively)	15,855	20,099
Investment companies (including investments accounted for using the equity method of US$66,436 and US$59,896, at December 31, 2002 and 2001, respectively)	101,373	100,053
	117,228	120,152

The Corporation recorded an impairment charge of US$5,062,000 and US$14,244,000 for the years ended December 31, 2002 and 2001, 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	
	2002	**2001**
Buildings and improvements	24,837	23,207
Furniture and equipment	4,446	4,064
Vehicles	239	323
	29,522	**27,594**
Less accumulated depreciation	19,641	18,128
	9,881	9,466

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) Deposits

The Corporation's deposits of US$228,425,000 at December 31, 2002 (US$528,270,000 at December 31, 2001), mature in 2003.

(8) Commercial Paper

The Corporation's commercial paper of US$501,021,000 at December 31, 2002 (US$491,671,000 at December 31, 2001), mature in 2003. At December 31, 2002 and 2001, the interest rates on commercial paper ranged from 1.42% to 1.87% and from 1.94% to 2.25%, respectively.

(9) Bonds

The Corporation has placed in the international capital markets, bond issues of US$4,643,084,000 maturing through 2022.

An analysis of bonds follows (in thousands of U.S. dollars):

	December 31, 2002		December 31, 2001	
	Amount	Weighted average cost after swaps (%)	Amount	Weighted average cost after swaps (%)
U.S. dollars	2,090,841	3.09	1,581,888	4.29
Yen	201,613	2.77	379,645	4.83
Deutschemark	109,709	2.39	109,709	4.27
Pounds Sterlings	272,598	4.04	-	-
Euros	916,035	2.84	491,260	3.40
	3,590,796		2,562,502	
Fair value adjustments on hedging activities	(312,334)		76	
Carrying value of bonds	3,278,462		2,562,578	

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	
	2002	2001
Remaining maturities		
Less than one year	489,877	315,942
Between one and two years	640,120	490,077
Between two and three years	753,488	541,720
Between three and four years	201,613	541,425
Between four and five years	121,725	201,613
Over five years	1,383,973	471,725
	3,590,796	2,562,502

At December 31, 2002 and 2001, fixed interest rate bonds amounted to US$3,210,663,000 and US$2,455,614,000, respectively, of which US$1,401,555,000 and US$980,614,000, respectively, are denominated in yen, deutschemark, pounds sterling and euros in 2002 and 2001.

(10) Borrowings and Other Obligations

An analysis of borrowings and other obligations and weighted average cost, follows (in thousands of U.S. dollars):

	December 31, 2002		December 31, 2001	
	Amount	Weighted average cost after swaps (%)	Amount	Weighted average cost after swaps (%)
U.S, dollars	397,181	2.35	435,966	3.57
Deutschemark	1,757	5.50	1,820	5.50
Yen	52,382	2.85	52,182	4.06
Euros	10,489	7.03	-	-
Other currencies	1,668	-	14,407	6.10
	463,477		504,375	
Fair value adjustments on hedging activities	268		7,373	
Carring value adjustments of borrowings and other obligations	463,745		511,748	

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, 2002 and 2001, there are fixed interest - bearing borrowings and other obligations amounting to US$40,169,000 and US$101,414,000, respectively.

Borrowings and other obligations, by remaining maturities, are summarized below (in thousands of U.S. dollars):

	December 31	
	2002	2001
Less than one year	131,328	114,443
Between one and two years	91,747	103,472
Between two and three years	94,420	61,239
Between three and four years	54,761	35,833
Between four and five years	32,141	30,607
Over five years	59,080	158,781
	463,477	504,375

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

At December 31, 2002 and 2001 there were unused term credit facilities amounting to US$80,000,000 and US$120,000,000, respectively.

(11) Accrued Expenses and Other Liabilities

At December 31, 2002 and 2001, the accrual for employees' savings plan amounts to US$9,017,000 and US$7,838,000, net of advances of US$4,797,000 and US$4,312,000, respectively.

The employees' savings plan consists of contributions made by the employees and by the Corporation, as established in the Corporation's personnel regulations. Such funds are maintained within the Corporation and interest is accrued on the balance of such funds. The Corporation's contributions to this fund amounted to US$1,340,000 and US$1,311,000, for the years ended December 31, 2002 and 2001, respectively.

At December 31, 2002 and 2001, the accrual for employees' benefits amounted to US$10,080,000 and US$6,393,000, net of advances of US$5,196,000 and US$4,453,000, respectively.

At December 31, 2002 and 2001, total employees were 267 and 260, respectively.

(12) Stockholders' Equity

Authorized Capital

The authorized capital of the Corporation at December 31, 2002 and 2001, amounts to US$5,000,000,000 and US$3,000,000,000 respectively, distributed among Series "A", "B" and "C" shares.

Subscribed Callable Capital

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

Shares

The Corporation's shares are classified as follows:

Series "A" shares: Subscribed by the governments or public-sector institutions, semipublic or private entities with social or public objectives of 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$1,200,000.

Series "B" shares: Subscribed by the governments or public-sector institutions, semipublic or private entities and financial institutions (private sector is limited up to 49% participation) of the five Andean Community member countries. These shares grant the right of representation on the Corporation's Board of Directors 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$5,000.

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 alternate, who are elected by the holders of these shares. Series "C" shares have a par value of US$5,000.

A summary of the movement in subscribed and paid-in capital for the years ended December 31, 2002 and 2001, follows (amounts in thousands of U.S. dollars):

	Number of shares			Amounts			
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	Total
At December 31,2000	5	189,894	7,005	6,000	949,470	35,025	990,495
Dividends in shares	-	5,341	202	-	26,705	1,010	27,715
Issued for cash	-	8,516	2,508	-	42,580	12,540	55,120
At December 31, 2001	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)
At December 31, 2002	5	219,993	12,911	6,000	1,099,965	64,555	1,170,520

Subscribed and paid-in capital is held as follows at December 31, 2002 (amounts in thousands of U.S. dollars):

	Number of shares			Amounts			
Stockholder	Series "A"	Series "B"	Series "C"	Series"A"	Series "B"	Series "C"	Total
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
	5	219,993	12,911	6,000	1,099,965	64,555	1,170,520

At December 31, 2002, the distribution of unpaid subscribed capital and of subscribed callable capital is presented below (amounts in thousands of U.S. dollars):

	Unpaid subscribed capital				Subscribed callable capital			
	Series "B"		Series "C"		Series "B"		Series "C"	
Stockholder	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	-	-
Brazil	-	-	-	-	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Jamaica	-	-	27	135	-	-	-	-
Paraguay	-	-	79	395	-	-	-	-
Uruguay	-	-	1,700	8,500	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
	53,654	268,270	1,806	9,030	180,000	900,000	2,400	12,000

Subscribed and paid-in capital is held as follows at December 31, 2001 (amounts in thousands of U.S. dollars):

	Number of shares			Amounts			
Stockholder	Series “A”	Series “B”	Series “C”	Series “A”	Series “B”	Series “C”	Total
Bolivia	1	16,124	-	1,200	80,620	-	81,820
Colombia	1	57,093	-	1,200	285,465	-	286,665
Ecuador	1	16,124	-	1,200	80,620	-	81,820
Peru	1	57,092	-	1,200	285,460	-	286,660
Venezuela	1	57,092	-	1,200	285,460	-	286,660
Brazil	-	-	4,813	-	-	24,065	24,065
Chile	-	-	245	-	-	1,225	1,225
Jamaica	-	-	82	-	-	410	410
Mexico	-	-	2,617	-	-	13,085	13,085
Paraguay	-	-	800	-	-	4,000	4,000
Panama	-	-	1,041	-	-	5,205	5,205
Trinidad & Tobago	-	-	117	-	-	585	585
Commercial Banks	-	226	-	-	1,130	-	1,130
				-			
	5	203,751	9,715	6,000	1,018,755	48,575	1,073,330

At December 31, 2001, the distribution of unpaid subscribed capital and of subscribed callable capital is presented below (amounts in thousands of U.S. dollars):

	Unpaid subscribed capital				Subscribed callable capital			
	Series “B”		Series “C”		Series “B”		Series “C”	
Stockholder	Number of shares	Amount	Number of acciones	Amount	Number of de acciones	Amount	Number of acciones	Amount
Bolivia	3,638	18,190	-	-	14,400	72,000	-	-
Colombia	12,824	64,120	-	-	50,400	252,000	-	-
Ecuador	3,638	18,190	-	-	14,400	72,000	-	-
Peru	12,826	64,130	-	-	50,400	252,000	-	-
Venezuela	12,826	64,130	-	-	50,400	252,000	-	-
Brazil	-	-	644	3,220	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Jamaica	-	-	27	135	-	-	-	-
Paraguay	-	-	227	1,135	-	-	-	-
Panama	-	-	-	-	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
	45,752	228,760	898	4,490	180,000	900,000	2,400	12,000

General Reserve

The general reserve was set-up to cover possible contingencies. The stockholders decided to increase the reserve by US$78,437,000 and US$48,307,000 during the years ended December 31, 2002 and 2001, respectively, by appropriations from net income for the years ended December 31, 2001 and 2000, 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 2002 and 2001, it was authorized to increase the reserve by US$10,900,000 and US$10,700,000, from net income for the years ended December 31, 2001 and 2000, respectively.

(13) Distributions to Stockholders

In March 2002 and 2001, the stockholders agreed to distribute US$19,100,000 and US$26,000,000, respectively, from retained earnings at December 31, 2001 and 2000, respectively, to the stockholders' funds.

(14) 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.

(15) 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.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates and currency exchange rates. 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 assesses interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows. The Corporation maintains risk management control systems to monitor interest rate cash flow risk attributable to both the Corporation's outstanding or forecasted debt obligations as well as the Corporation's offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on the Corporation's future cash flows.

The following table presents the fair value of interest rate swaps and cross-currency swaps at December 31, 2002 and 2001:

	2002 Fair Value Adjustments		2001 Fair Value Adjustments	
	Derivatives assets	Derivatives liabilities	Derivatives assets	Derivatives liabilities
Investments	-	-	-	79
Loans	175	-	-	2,524
Bonds	-	312,334	76	-
Borrowings and other obligations	268	-	7,373	-
	443	312,334	7,449	2,603

For the years ended December 31, 2002 and 2001 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, 2002 and 2001 was nil, as the Corporation uses the shortcut method to determine the fair value of its hedged financial instruments.

(16) Fair Value

The following table presents the carrying amounts and estimated fair values of the Corporations' financial instruments at December 31, 2002 and 2001. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties (amounts in thousands of U.S. dollars):

	2002		2001	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets:				
Cash and due from banks	1,740	1,740	2,744	2,744
Deposits with banks	702,139	702,139	606,965	606,965
Securities purchased under resale agreements	25,000	25,000	-	-
Marketable securities				
Trading	540,482	540,482	371,294	371,294
Held-to-maturity	129,595	127,713	238,006	238,874
Loans	6,062,407	6,087,574	5,455,156	5,465,767
Interest and commissions receivable	143,172	143,172	133,181	133,181
Derivative contracts (included in other assets)	443	443	7,449	7,449
Financial liabilities:				
Deposits	228,425	228,425	528,270	528,270
Securities sold under repurchase agreements	-	-	33,958	33,958
Commercial paper	501,021	501,021	491,671	491,671
Advances and short-term borrowings	546,432	546,432	670,279	670,279
Bonds	3,278,462	3,282,895	2,562,578	2,562,891
Borrowings and other obligations	463,745	466,058	511,748	514,926
Derivative contracts (included in accrued expenses and other liabilities)	312,334	312,334	2,603	2,603
Accrued interest and commissions payable	106,137	106,137	96,564	96,564

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, securities sold under repurchase agreements, 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 hedged loans is determined using the market value of the swap agreement hedging interest rate risk. For unhedged fixed rate loans, the fair value is determined using the current variable interest rate for similar loans.

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 the shortcut method by applying the market price for swap agreements to determine the market price of the debt, for hedged items. The carrying amounts of unhedged debt approximate fair value when such debt is subject to variable market interest rates. For unhedged fixed interest rate debt, the fair value is determined using the current variable interest rate for similar bonds and borrowings and other obligations.

(17) **Commitments and Contingencies**

Commitments and contingencies include the following (in thousands of U. S. dollars):

	December 31	
	2002	**2001**
Credit agreements subscribed	1,345,179	1,250,071
Lines of credit for foreign trade	485,841	1,297,270
Letters of credit for foreign trade	10,627	22,005
Guarantees	183,333	100,000
Other	49,730	27,374

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 given to the Republic of Colombia for the payment of principal and interest up to the following amounts (in thousands of U. S. dollars)::

	December 31	
	2002	**2001**
Maturity		
2005	100,000	100,000
2007	83,333	-
	183,333	100,000

(18) Subsequent Events

In September 2002, the Spanish government approved Spain's February 2002 subscription to paid-in capital of US$100,000,000 and callable capital of US$200,000,000, and in October 2002 such subscription became effective. Spain made its initial payment of US$33.3 million in January 2003, making Spain a non-regional stockholder. The balance will be due in two equal annual installments.

On January 7, 2003 the Corporation issued US$200,000,000 aggregate principal amount of 6 7/8% Notes due 2012, Series B.

Shareholders Assembly [1]

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 [2]

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

Executive Committee

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

Audit Committee

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

Executive President

The Executive President is CAF's legal representative. He is in charge of the Corporation's general direction and management as well as all matters which have not been specifically entrusted to any other governing body. Likewise, he approves the strategic country and sector plans the institutional structures and processes under his authority, and the Corporation's financial operations within the limits delegated to him by the Board of Directors. The Executive President is assisted by an Advisory Council composed of experts from the economic, business and financial communities of the region, whose main task is to support the President in the analysis of CAF's strategic objectives. The Executive President is appointed for a five-year period and can be re-elected.

1. The 33rd meeting of the Shareholder's Regular Assembly and the 9th meeting of the Shareholder's Extraordinary Assembly were held on March 1, 2002.
2. During 2002, the Board of Directors held three meetings: February 28, July 23, and October 29.

Board of Directors
(as of December 31, 2002)

President of the Board of Directors (2002-2003)*
Francisco Arosemena R.
Minister of Economy and Finance, Ecuador

SERIE "A" Shareholders

BOLIVIA
Principal: José Guillermo Justiniano
Minister Sustainable Development and Planning
Alternate: Javier Comboni S.
Minister of Finance

COLOMBIA
Principal: Roberto Junguito
Minister of Finance and Public Credit
Alternate: Jorge Humberto Botero
Minister of External Trade

ECUADOR
Principal: Nicolás Espinoza
President of the Board of Directors of Corporación Financiera Nacional
Alternate: Heinz Moeller
Minister of External Trade, Industrialization y Fisheries

PERÚ
Principal: Raúl Diez Canseco
Minister of External Trade and Tourism
Alternate: Javier Silva Ruete
Minister of Economy and Finance

VENEZUELA
Principal: Tobías Nóbrega
Minister of Finance
Alternate: Felipe Pérez
Minister of Development and Planning

SERIE "B" Shareholders

BOLIVIA
Principal: Juan Carlos Virreira
Minister of External Trade
Alternate: Roberto Camacho
Viceminister of Public Investment and External Finance

* Carlos Julio Emanuel, Minister of Economy and Finance of Ecuador Through July 2002

COLOMBIA

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

ECUADOR

Principal:	Francisco Arosemena R. Minister of Economy and Finance
Alternate:	Mauricio Yépez President of the Board of Directors of Banco Central del Ecuador

PERU

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

VENEZUELA

Principal:	Ramón Rosales Minister of Industry and Trade
Alternate:	Nelson Merentes President of Banco de Desarrollo Económico y Social de Venezuela

SERIE “C” Shareholders

BRAZIL

Principal:	Dante Coelho de Lima Minister Secretary of Foreign Affairs Ministry of Planning, Budget and Management

MEXICO

Alternate:	Eduardo Mapes Manager for Investment Promotion of Nacional Financiera (Nafin) , S.N.C

PRIVATE BANK

Principal:	Julio León Prado President of Banco Bisa, Bolivia
Alternate:	Pedro Nel Ospina President of Banco Cafetero, Colombia

Management

(as of December 31, 2002)

Presidente and Chief Executive Officer	L. Enrique García
Executive Vice President	Luis Enrique Berrizbeitia
General Advisor	Luis Sánchez Masi
Chief Legal Councel	Fernando Dongilio
Internal Auditor	Raúl Pineda
Chief Credit Officer	Stephen Foley
Director, Special Assets	Renny López
Director, Risk Management	Jaime Reusche
Director, Secretariat and External Relations	Ana Mercedes Botero
Director, Corporate Communications	José Luis Ramírez
Corporate Vice Presidente, Development Strategies and Chief Economist	Fidel Jaramillo
Director, Regional Integration	Carlos Zannier
Director, Sustainable Development	María Teresa Szauer
Director, Financial Markets Development	Camilo Arenas
Corporate Vice President, Country Programs	Lilliana Canale
Director, Country Programs	Alexis Gómez
Director, Governance and Technical Cooperation	Elvira Lupo
Country Representative, Bolivia	José Vicente Maldonado
Country Representative, Colombia	Luis Palau
Country Representative, Ecuador	Freddy Rojas
Country Representative, Perú	Germán Jaramillo
Corporate Vice President , Infrastructure	Antonio Juan Sosa
Director, Power, Water and Project Finance	Carmen Elena Carbonell
Director, Transport, Telecommunications and Social Infrastructure	Manuel Llosa
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
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

Headquarters

Venezuela
Ave. Luis Roche, Torre CAF, Altamira, Caracas - Venezuela
Phone: (58 212) 209.2111 (Master)
Fax: (58 212) 284.5754 / 2553.
PO BOX: Carmelitas 5086.
E-mail: sede@caf.com

Regional Offices

Bolivia
Edificio Multicentro, Torre "B", Piso 9
Calle Rosendo Gutiérrez, Esq. Ave. Arce, La Paz - Bolivia
Phone: (591-2) 244.3333 (Master)
Fax: (591-2) 244.3049
PO BOX: Nº 550
E-mail: bolivia@caf.com

Colombia
Edificio Corporación Financiera de Caldas
Carrera 7ª Nº: 74-56, Piso 13, Bogotá - Colombia
Phone: (571) 313.2311 (Master)
Fax: (571) 313.2787
PO Box: 17826
E-mail: colombia@caf.com

Ecuador
Edificio World Trade Center, Piso 13
Ave. 12 de Octubre, Nº: 1942 y Cordero, Quito - Ecuador
Phone: (593-2) 222.4080 (Master)
Fax: (593-2) 222.2107
PO Box: 17-01-259
E-mail: ecuador@caf.com

Perú
Edificio Torre Siglo XXI
Ave. Enrique Canaval Moreyra, Nº: 380, Piso 9
San Isidro - Lima 27 - Perú
Phone:(511) 221.3566 (Master)
Fax:(511) 221.0968
PO Box: 18-1020, Lima 18
E-mail: peru@caf.com

Internet: www.caf.com