



July 28, 2015

**Summary of the Monetary Committee discussion and decisions on July 14, 2015  
regarding the capital increase at the Inter-American Investment Corporation  
(IIC), a member of the Inter-American Development Bank (IDB) Group**

**Background data**

The Bank of Israel represents the State of Israel in several international financial institutions, including the International Monetary Fund (IMF), the World Bank Group (WBG), the European Bank for Reconstruction and Development (EBRD), the Bank for International Settlements (BIS), the Inter-American Development Bank (IDB), and its private-sector financing arm, the Inter-American Investment Corporation (IIC).

Section 82 of the Bank of Israel Law, 5770-2010, grants the Bank the authority to carry out any act required for the purpose of representation in the international financial institutions in which it represents the State, including investing in shares of those international financial institutions. Israel is now being asked to participate in a capital increase at the Inter-American Investment Corporation.

The Inter-American Investment Corporation was established in 1985 with the goal of promoting development of the private sector, particularly small and medium sized enterprises (SMEs), in Latin American and Caribbean countries. The Inter-American Investment Corporation provides credit, equity investments, guarantees, advisory services, and aid to businesses in the countries in which it operates. Israel joined as a member of the Inter-American Investment Corporation in 1987.

Every member country in the Inter-American Investment Corporation purchased shares in the bank upon joining the organization, and has the opportunity to purchase additional shares when the bank increases its capital. The number of shares that a country holds determines its voting power in the organization. Prior to Israel's participation in this capital increase, Israel holds 173 share of IIC, which it bought for cash when it joined the organization (in 1987–90) and in the first capital increase (in 2001–07). Membership in international financial institutions, including membership in the Inter-American Investment Corporation, promotes Israel's standing and international relations, and at times its economic relations as well. A country that does not participate in capital increases adversely impacts its standing in that institution. Furthermore, the vast majority of member countries support the activities of those financial institutions, and not participating in a capital increase is rare.

**The current capital increase at the Inter-American Investment Corporation**

The current capital increase at the Inter-American Investment Corporation is taking place due to a decision by the Boards of Governors of the Inter-American Development Bank and of the Inter-American Investment Corporation, who decided on March 30, 2015 to consolidate the private sector activities of the Inter-American

Development Bank Group (Resolution AG-9/15 and CII/AG-2/15).<sup>1</sup> The capital increase is part of the process of transferring the private sector operations, which are not sovereign guaranteed, from the Inter-American Development Bank to the Inter-American Investment Corporation. This is in order to increase the focus vis-à-vis the bank's private-sector customers and to increase the efficiency of providing service. The transfer is expected to make the transfer of knowledge, coordination, control and oversight of operations vis-à-vis the private sector more efficient, by concentrating the activity under one roof which will unite the operations vis-à-vis the private sector.

In accordance with the decisions of the Boards of Governors from March 30, 2015, the Inter-American Investment Corporation's total capital will increase by 125,474 shares, each of which is worth US\$ 16,178.6, so that the total capital of the Inter-American Investment Corporation will increase by US \$2.03 billion. The Board of Governors decided that \$1.305 billion of the capital increase will be raised through 80,662 shares to be issued for purchase by member countries of the Inter-American Investment Corporation (as well as 3 countries that are members of the Inter-American Development Bank and that are interested in joining the Inter-American Investment Corporation) at a value of, as noted, US\$ 16,178.6 per share. This issue will be spread over 7 years, beginning in 2016. In addition, an aggregate amount of \$725 million will be transferred from the Inter-American Development Bank to the Inter-American Investment Corporation, over 8 years, beginning in 2018, subject to annual approval by the bank, and at the time of such transfers, 44,812 shares will be issued (also at a price per share of US\$ 16,178.6). These shares will be allocated to countries in accordance with the percentage of their holdings in the Inter-American Development Bank.

#### **What it means for Israel**

In this capital increase by the Inter-American Investment Corporation, for a total, as noted, of 80,662 shares, Israel was allocated 197 shares that are to be purchased with cash.

**Paid-in capital:** Israel is requested to purchase paid-in capital at a total amount of \$3,187,184.2, beginning in October 2016.

#### **Monetary Committee decision:**

The Bank of Israel will purchase 197 shares in the Inter-American Investment Corporation for cash (paid-in). This is in accordance with the terms detailed in the decision—Resolution AG-9/15 and CII/AG-2/15—that were approved by the Boards of Governors of the Inter-American Development Bank and of the Inter-American Investment Corporation.

The Bank of Israel will pay US\$ 3,187,184.20 for the paid-in shares, in accordance with the terms detailed in the decision's proposal, as noted in this section.

#### **The decision was reached on July 14, 2015.**

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<sup>1</sup> Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-Out.

**Participants in the discussion:**

**Members of the Monetary Committee**

Dr. Karnit Flug, Governor of the Bank of Israel, Chairperson

Dr. Nadine Baudot-Trajtenberg, Deputy Governor

Prof. Alex Cukierman

Prof. Reuben Gronau

Prof. Nathan Sussman, Director of the Research Department

**Other participants in the discussion:**

Dr. Ohad Bar-Efrat, Head of Information and International Relations Division

Mr. Daniel Hahiashvilli, Chief of Staff to the Governor

Ms. Anat Shabat, Head of Accounting Division in the Accounting, Payment and Settlement Systems Department

Ms. Esti Schwartz, Secretary of the Monetary Committee and the Supervisory Council