

# CABEI 2015-2019 INSTITUTIONAL STRATEGY

INTEGRATING SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS







**CABEI**

**Central American Bank  
for Economic Integration**

# **CABEI 2015-2019 INSTITUTIONAL STRATEGY**

**INTEGRATING SUSTAINABLE DEVELOPMENT  
AND COMPETITIVENESS**

# FRONT PAGE

The front page is composed by Institutional strategy axes images that represent the improvement for economic conditions and gender equality of social development, regional integration for free and secure mobility and competitiveness that impulses the capabilities and strengths of our people. In the background, the cacao image represents the environmental sustainable axe which illustrates the wealth and commercial linkage in the region.

Institutional Strategy CABEI 2015-2019: Integrating Development and Sustainable Competitiveness  
Annexed DI-127/2014

This is a non official version. In the event of a conflict between the versions, the Spanish version shall prevail.

Central American Bank for Economic Integration

[www.cabei.org](http://www.cabei.org)

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# I. REGIONAL ECONOMIC ENVIRONMENT AND OUTLOOK



## A. EXTENDED EFFECTS OF THE INTERNATIONAL FINANCIAL CRISIS (2009-2014)

**The recovery of the global economy has been prolonged and difficult.** The effects of the international financial crisis have lingered during the 2009-2014 period, although the emerging economies have demonstrated resilience in the face of the crisis. For Central America, it has resulted in a downturn in external demand, a decrease in family remittances, a reduction in external cooperation and a moderation in inflows of foreign direct investment, leading to a regional average growth rate of approximately 3.3% during the period; this was a significant decrease compared to the 5.0% average growth rate before the crisis from 2003 to 2008<sup>1</sup>.

**The lack of robust growth has affected the region's fiscal position.** Tax revenues are growing at a slower pace than public spending, and the shortfall must be financed with public debt at market rates. Delayed reforms to tax collection and other fiscal policies have contributed to financial imbalance in the public sector of the Bank's member countries, which are simultaneously faced with large social and infrastructure requirements to strengthen their economies. The increase in the petroleum bill of the Central American countries and lower prices for the major commodities exported by the region are some of the factors that have affected the countries' public finances.

<sup>1</sup> The case of Panama is a noteworthy exception. It is the only country in the region that has maintained similar growth rates during both periods (8.3% and 8.0%, respectively) as a result of the investment in the canal's expansion.



*Cerro de Hula Wind Project, Honduras*

## B. OUTLOOK

### FOR THE ECONOMIC ENVIRONMENT (2015-2019)<sup>2</sup>

**The evolution of the global economy has been modular for the Bank's member countries, especially for the Central Americans.** The performance of the region's countries has been directly affected by their degree of dependence on trade with the United States of America, their association with the European Union and relations resulting from bilateral commercial agreements. Likewise, the unemployment levels in the U.S. and Europe affect family remittance flows; meanwhile, turbulence in financial markets limits the flows of foreign direct investment and the availability of cooperation funds.

**The trend of the global economy suggests that the transition to a more stable global climate will continue, but that it will be subject to downside risks.** International Monetary Fund's (IMF) estimates indicate that in 2015 global economic activity will continue to be bolstered by renewed growth in the advanced economies, which is expected to remain relatively stable until 2019. In this context, synergies tied to trade dynamics will constitute one of the main determinants since the developed economies' rebound in production and consumption is expected to stimulate exports from the emerging markets. However, the IMF warns that government authorities must remain attentive to the risks of a decrease in the potential output of the emerging markets, the effects of public over-indebtedness and financial fragmentation in the advanced economies, as well as the resurgence of geopolitical tensions. As a reference point, table 1 shows the performance of growth rates in the recent past and projections for the medium term.

<sup>2</sup> Based on information published by the International Monetary Fund. WEO-October 2014

Table 1.

**REAL GDP OF THE PRINCIPAL ECONOMIES (PERCENTAGE)**

Geographic Region/Country	Years				
	2012	2013	2014*	2015*	2019*
<b>World</b>	<b>3.4</b>	<b>3.3</b>	<b>3.3</b>	<b>3.8</b>	<b>4.0</b>
<b>Advanced Economies</b>	<b>1.2</b>	<b>1.4</b>	<b>1.8</b>	<b>2.3</b>	<b>2.3</b>
United States	2.3	2.2	2.2	3.1	2.6
Euro Zone	-0.7	-0.4	0.8	1.3	1.6
Germany	0.9	0.5	1.4	1.5	1.3
France	0.3	0.3	0.4	1.0	1.9
Italy	-2.4	-1.9	-0.2	0.9	1.1
Spain	-1.6	-1.2	1.3	1.7	2.0
Japan	1.5	1.5	0.9	0.8	1.0
Other advanced economies	2.0	2.3	2.9	3.1	3.3
<b>Emerging Markets and Developing Countries</b>	<b>5.1</b>	<b>4.7</b>	<b>4.4</b>	<b>5.0</b>	<b>5.2</b>
Latin America and the Caribbean	2.9	2.7	1.3	2.2	3.3

\*Projected data.

Source: International Monetary Fund. WEO-October 2014.

**Significant changes are expected in international markets.**

On one hand, raw material prices are expected to increase, but they will continue to be subject to the effects of supply restrictions and geopolitical conflicts. On the other hand, the outlook for improved profits in capital markets could result in more restrictive financial conditions and risk-averse attitudes towards emerging markets, aggravating financial turbulence and pressure on investment and growth. Additionally, the large output gaps will continue to produce lower inflation, which, on the long term, could lead to a deflationary situation, resulting in higher real interest rates, increased debt service rates and a weakening of demand.

**Economic growth in Central America is expected to be modest.**

The IMF foresees average economic growth in the range of 3.0%-3.5% (see table 2). Inflationary pressures will increase slightly, but will remain under control in line with the estimates of monetary policy. Commercial trade will tend to gradually stabilize as demand in the U.S. strengthens, major export commodity prices recover and the prices of imported inputs (especially hydrocarbons) remain stable. The flow of family remittances will evolve alongside recovering employment levels in the U.S. labor market and capital flows (investment) could increase slightly as a result of recovered investor confidence.

Table 2.

**REAL GDP OF CABEI BENEFICIARY MEMBERS (PERCENTAGE)**

Geographic Region/Country	Years				
	2012	2013	2014*	2015*	2019*
<b>Latin America and the Caribbean</b>	<b>2.9</b>	<b>2.7</b>	<b>1.3</b>	<b>2.2</b>	<b>3.3</b>
Guatemala	3.0	3.7	3.4	3.7	3.5
El Salvador	1.9	1.7	1.7	1.8	2.0
Honduras	3.9	2.6	3.0	3.1	3.0
Nicaragua	5.0	4.6	4.0	4.0	4.0
Costa Rica	5.1	3.5	3.6	3.6	4.3
Belize	4.0	0.7	2.0	2.5	2.5
Panama	10.8	8.4	6.6	6.4	5.8
Dominican Republic	2.7	4.6	5.3	4.2	4.0
Argentina	0.9	2.9	-1.7	-1.5	--
Colombia	4.0	4.7	4.8	4.5	4.5

\*Projected data.

Source: International Monetary Fund. WEO-October 2014.



*Modernization of Irrigation Project in Comayagua Valley, Honduras*

**Volatility in the international environment and internal challenges will condition the region's economic performance.** The outlook remains subject to risks, such as a slowdown in the economic activity of main trade partners, falling raw material and export commodity prices, restrictions to flows of cooperation and access to external financing and possible volatility in financial markets, among others. Additionally, fiscal positions represent an important challenge for the majority of the economies, especially with regard to deficits and public indebtedness. There is still no consensus on the optimum policy combinations for facing these challenges.

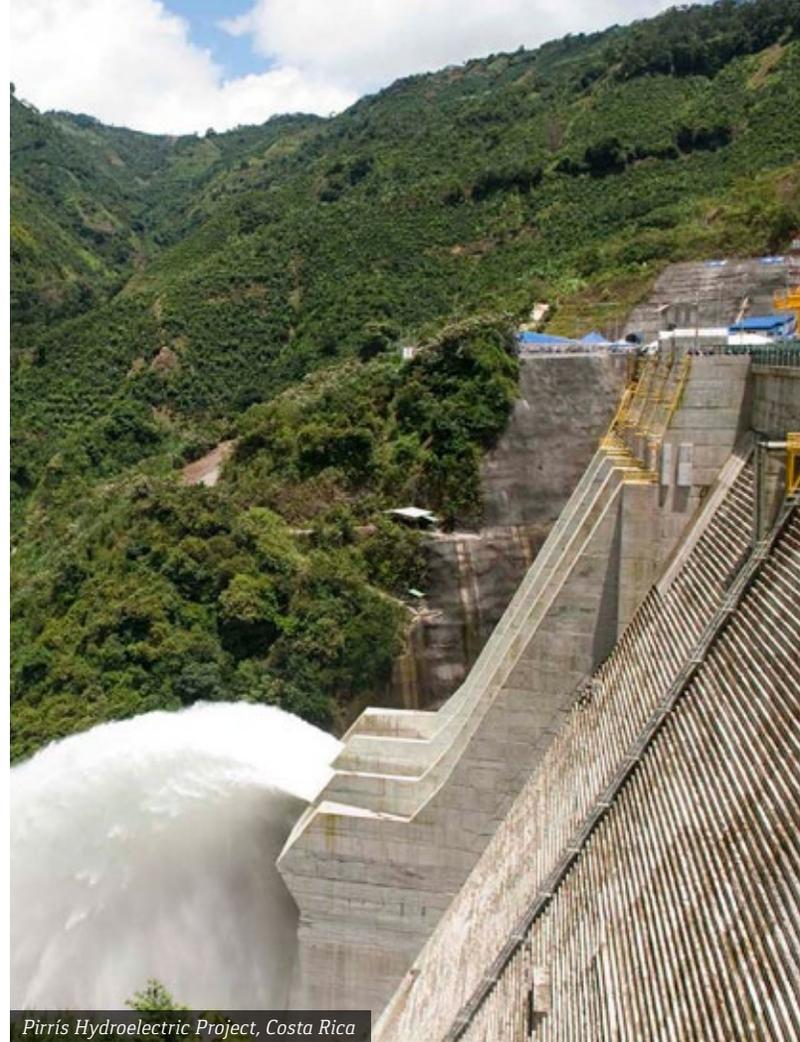
**Management of development efforts should be based on a strategic approach to deal with the challenges faced over the next five years.** With an outlook for sustained sluggish growth, in a context of growing economic and social needs, multilateral organizations will require more competitive interventions that make greater contributions to development. In this sense, CABI faces a situation where the region has begun to rely on funding from capital markets; in addition, there is a need for development assistance through more innovative products like public-private associations (PPA). Assistance to the countries has been changing from cooperation-based to a more market-oriented approach, and development organizations are focusing on more efficient management in order to achieve greater impact. In this context, CABI must streamline its administration to deal with this new reality in order to ensure its position of relevance as the strategic ally of the region.

## C. CHALLENGES TO CENTRAL AMERICAN DEVELOPMENT

**Central America must face its structural problems and an unfavorable international environment.** The vulnerability of the Central American economies to external shocks continues to be a challenge for the future, requiring the implementation of strategies involving structural changes in production, market diversification and greater progress on the regional economic integration process. There is also a lack of public security in the majority of the Central American countries as a result of illegal activities; this will require a greater effort to contain the social and economic costs involved in the situation. In this context, the region must prioritize a work agenda that focuses on the most important challenges to be attended in order to improve Central America's quality of life and consolidate sustained economic growth on the long term.

**Sustainable environmental growth.** Environmental sustainability is one of CABEI's strategic objectives and is part of the Bank's development policies for the region. In less developed countries the problem is more acute because there is a direct relationship between poverty levels and deterioration of natural resources and the environment. For that reason it is important to recognize the role that must be played by the public and private sectors through a real commitment to adopt environmentally-friendly measures and policies, conscious that on the long term these will lead to a better standard of living for the Central American people. As a result, the new development plans of the region's countries must be oriented at promoting trade liberalization, improving inclusion, developing sustainable public policies, implementing mechanisms that reduce vulnerability to economic shocks and natural disasters and promoting increased economic growth and job creation<sup>3</sup>.

**Reduce poverty and increase public safety.** Based on the principle that poverty reduction is impossible without economic growth, efforts must focus on areas that foster job creation and human development, especially with regard to education and health care. Without this focus, progress will become slow, the quality of life will not improve and job creation will be insufficient. In this sense, the region's governments must allocate resources to the institutions responsible for the policies of public security, health care and education that contribute to raising the quality of human capital and thereby promote economic development. However, there are insufficient resources, and it is necessary to establish new well-articulated financial strategies and policies to promote poverty reduction and public safety<sup>4</sup>.



*Pirris Hydroelectric Project, Costa Rica*

**Foreign trade and regional integration.** Central America has approved five free trade agreements in the past decade. Because the Central American integration process is perceived as a long term vision, it is important to emphasize that the Central American agenda must focus on how to take better advantage of the benefits of free trade, as well as to reduce possible adverse impacts through public policies that promote the external sector. In addition, it is believed that regional integration has been strengthened through the global evolution of businesses. This situation has resulted in increased commercial trade and intraregional investment. However, there are still pending tasks, such as streamlining the customs union process, expanding markets and creating norms for fuller integration on a regional level and in international trade.

<sup>3</sup> Structural Change and Growth in Central America and the Dominican Republic: A balance of two decades, 1990-2011. CEPAL (2014).

<sup>4</sup> Crime and Violence in Central America: A Challenge for Development. World Bank (2011).



*Highway Rehabilitation and Maintenance Project, Nicaragua*

**The moderate Central American economic growth must lead to greater job creation.** Job creation contributes to significantly bolstering the labor market and to creating incentives for social coverage and improving its quality. In many countries, labor market regulations are an obstacle to the generation of formal employment, and they also affect competitiveness and limit economic growth. From this perspective, the government has become an important actor in dealing with the issue since its actions can provide the private sector with elements that permit it to generate competitive productive employment. Likewise, the region must define how to encourage businesses to create more jobs and invest more in order to contribute to reducing poverty. It is a fundamental issue since employment is the central variable affecting economic and social factors. Therefore, an in-depth analysis of the subject of labor regulations and social protection is indispensable<sup>5</sup>. In addition, it is important to establish mechanisms to facilitate financing for small and medium enterprises, which are optimum for employment generation, especially in the informal sector.

**One of the best strategies for the region to advance the development process is to attract productive investment.** Attracting investment is a source of both fresh capital and technology, new production methods, management capacity and distribution channels for a country. The work agenda of the Central American region concentrates on four essential aspects for attracting investment: an initially attractive cost-productivity ratio for investing companies; a platform of institutional and judicial security that allows medium term planning; a capacity for adoption and adaptation that permits full exploitation of new technologies; and the capacity to develop international trade platforms that make it possible to take full advantage of new markets.

**The region has mechanisms to rapidly and significantly increase the supply of public goods and services.** To achieve this objective, the governments are faced with budget limitations for carrying out their development plans and increasing the supply of goods and services. This requires efficient distribution of the available resources and must lead to a definition of high impact priorities. Fiscal discipline must prevail with regard to the performance of the public sector because fiscal deficits and public indebtedness are not always the optimum manner for improving citizens' quality of life. It is necessary to promote fiscal reforms, while recognizing that there is resistance to increasing taxes and reducing current expenditure.

**The region is facing an extensive work agenda, from achieving consistent macroeconomic policies to promoting the countries' human development.** The region is facing a large number of needs, which have been prioritized in the countries' development plans. In this sense, these challenges represent an opportunity for bilateral and multilateral organizations and international cooperation in general to support the region's development. In addition, in order for interventions to provide the most added value and complementarity with the priorities established by the region and the countries, they must provide greater coverage and assistance to improve the quality of life and wellbeing of Central American citizens.

<sup>5</sup> Better Jobs in Central America: The Role of Human Capital. World Bank (2012).

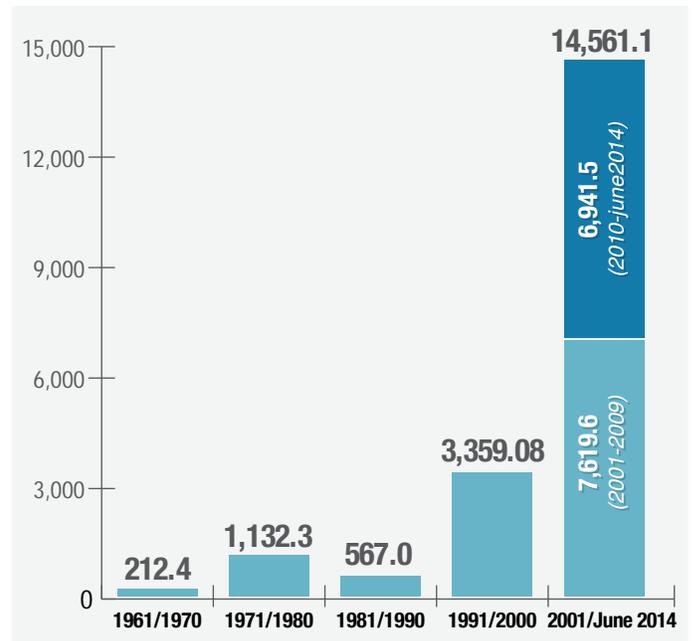


## D. CABEI IN CENTRAL AMERICA

**CABEI was created in 1960 as the financial arm of the region’s integration and development process.** CABEI was established as part of the Central American Integration Program to channel additional external resources in order to finance manufacturing, infrastructure works with an emphasis on trade and to promote an integration scheme for the Central American region. Currently, CABEI has twelve members: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Mexico, the Republic of China (Taiwan), Argentina, Colombia, Spain, Panama, the Dominican Republic and a non-founding beneficiary country: Belize. It is important to note that the first five of these are its funding member countries.

**As established in its mandate, the initiatives promoted by CABEI are grounded in the provisions of article two of its Constitutive Agreement.** CABEI has focused its activity on promoting initiatives that foster economic growth and lead to a reduction of poverty and inequality; regional integration; and the competitive insertion of its member countries into the global economy. The Bank’s operations are based on the highest standards of service quality and provide special attention to environmental sustainability.

Graph 1  
**APPROVALS 1961-JUNE-2014 (US\$ MILLION)**



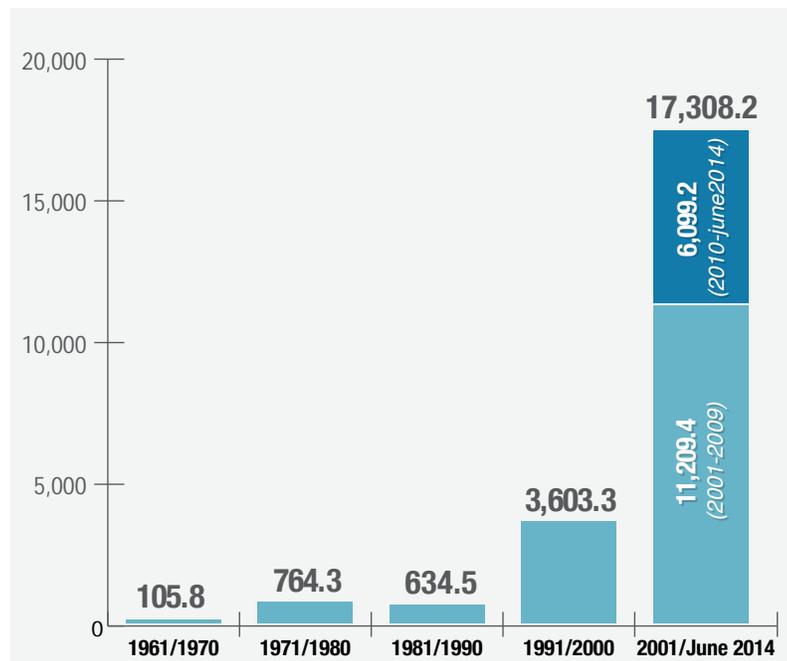
Source: Constructed from CABEI’s data base.

**CABEI's support to the region over the past 54 years has resulted in approvals greater than US\$18.90 billion and disbursements of more than US\$21.70 billion.** CABEI has provided a significant amount of resources to the region. This is reflected in the approval of road infrastructure projects totaling more than US\$4.91 billion during the period, contributing to the construction of more than 4,100 km of paved roads and to the expansion and reconstruction of more than 6,000 km. Together, this represents more than 10.0% of the region's road infrastructure. With respect to support for the energy sector, CABEI has approved more than US\$3.80 billion in projects for the region, which represents more than 45.0% of installed capacity in Central America. The Bank has also disbursed more than US\$7.90 billion for projects aimed at promoting micro, small and medium enterprise, education, health care services, social housing and the region's productive sectors.

**Starting in 2010, the Bank implemented its five-year strategy, denominated the CABEI 2010-2014 Strategy: Competitiveness with Integration and Social Development.** During this period of time, CABEI has been implementing a strategy aimed at raising the Bank's impact on development, supporting the achievement of the Millennium Development Goals (MDG) and contributing to the economic reactivation of Central America following the international crisis. The strategic proposal is made up of axes, focus areas and initiatives that are pursuant to the provisions of article 2 of the Constitutive Agreement. It is important to note that the approvals achieved during this five year period represent 1/3 of the total approvals throughout the Bank's history and 1/4 of its disbursements.

**CABEI has defined focus areas to attend regional needs.** CABEI has established a group of focus areas through which it has directed its resources to Central America, permitting the Bank to foster the region's diversification. It is important to note that the identification and formulation of initiatives directed at the focus areas set out in the 2010-2014 Institutional Strategy sought to comply with the development impact requirements and to harmonize with strategic axes and objectives defined in the 2010-2014 Institutional Strategy. In this context, there has been noteworthy attention to the areas of productive infrastructure; energy; development finance; agriculture and rural development; human development and social infrastructure; and industry, urban development and competitiveness services.

**Graph 2**  
**DISBURSEMENTS 1961- JUNE-2014 (US\$ MILLION)**



Source: Constructed from CABEI's data base.

**CABEI carries out its operations based on the application of the Strategic Institutional Framework (SIF).** The main objectives are to guarantee a regional and integrated-country vision at the level of the Bank's operations and to strengthen the framework of institutional evaluation. To that end, there is an effort to align the strategic and operational proposals derived from the Institutional Strategy, the Country Strategies, the frameworks of sector intervention and the Annual Operational Plan (AOP). The Institutional Strategy is a proposal to define the Bank's mission and priority objectives for the region, and it is executed through instruments aimed at attending the region's development needs and priorities. The frameworks of sector intervention facilitate the understanding of and attention to those areas of principal relevance to the region. There are also short-term operational plans that propose interventions that will be carried out by the Institution on a yearly basis. The SIF will be evaluated through a Management by Results System that ensures its alignment with established goals and priorities.

**From 2010 to 2014, CABEI executed its Modernization Plan in order to maintain a strategic vision and a business model targeting development and regional integration.** In 2011, the CABEI Board of Governors considered it necessary to begin a process of institutional modernization at the Bank in the face of new challenges from the global economy and in line with the role that CABEI must assume in the development of its member countries' economies after 50 years of operation. In this sense, the Bank undertook a series of measures and actions, which ranged from the implementation of a CABEI strategic vision and business model aimed at the development and integration of the Central American region to a new capitalization program for the Bank, all under a vision of a continuous and dynamic process of institutional strengthening.

**The beginning of the 2015-2019 period constitutes a great opportunity for CABEI to continue contributing to social development, competitiveness and regional integration.** The search for balanced economic and social development, in a context of regional integration, continues to be one of the region's main objectives. This provides CABEI with the opportunity to continue supporting the main initiatives in the region and in its member countries in order to improve the wellbeing and quality of life of Central Americans. Thus, CABEI will continue to promote competitiveness and foster the region's productivity. Likewise, CABEI plans to support regional priorities, especially those defined in the initiative denominated, Sustainable Development Objectives and the Post-2015 Development Agenda<sup>6</sup>.

**CABEI will continue to focus on maintaining its financial soundness to achieve its institutional purpose.**

It is noteworthy that the Institution has an investment grade credit rating with a status of preferred creditor, an extensive network of intermediaries and a technological platform that permits it to streamline its operational modes and human resources with extensive experience in the region. However, CABEI considers it necessary to undertake a process of market diversification, continue strengthening its equity, incorporating new members and improving its positioning in the region to guarantee its position of financial soundness, but more importantly to strengthen the Institution's contribution to regional development.



<sup>6</sup> The consultations about the Post-2015 Development Agenda are focused on promoting MDG and the objectives that the countries continue attempting to reach. The consultations and analyses being carried out to define the work agenda for the post-2015 process focus on eleven subjects: conflicts and fragility, education, environmental sustainability, governance, growth and employment, health care, hunger, nutrition and food safety, inequality, population dynamics, energy and water.



## E. LESSONS LEARNED FROM THE CABEI 2010-2014 INSTITUTIONAL STRATEGY AND FUTURE ACTIONS

**Increase the impact on development.** The implementation of the 2010-2014 Institutional Strategy resulted in important contributions by CABEI to the region's development, but it also demonstrated that the Bank has room for improvement in its interventions. The degree of impact in some areas has been greater than in others, and the relative participation in certain areas, such as industry, urban development and competitiveness services and agriculture and rural development has been relatively low. In this sense, among its future actions, CABEI must continue to search selectively for projects with a degree of maturity, to raise resources under favorable conditions for the less developed countries, to promote Institutional Strengthening in the face of the volatile scenarios affecting the region and to improve the targeting of its interventions. These are actions that CABEI must continue to carry out in greater depth. In addition, CABEI's interventions have impacted the region's development<sup>7</sup>; it is necessary to continue promoting investments that promote the competitiveness of the Central American economies.

**Strengthen capital position.** CABEI's capital is highly concentrated in some countries, and it has directed the majority of its resources to two axes of institutional action: competitiveness and social development. As a result, the Bank must expand and diversify its capital base to better impact its current members; it must also take steps to incorporate new member countries in order to provide fresh capital to ensure equity strengthening and the Bank's growth in the region.

**Modernize the Bank's normative structure.** CABEI is a solid institution and is well positioned in the region; it must continue to modernize those aspects that further its growth and improve its credit rating on an international level.

**Increase the Bank's relevance as a regional multilateral bank.** CABEI's participation, which has been greater than 50.0% of total disbursements carried out by multilateral banks in recent years could be affected in the next five years by rigidity in capital markets, restrictions imposed by the international financial crisis and a greater demand for resources by its member countries in the face of restrictions on external cooperation to the region's countries. In this sense, the Bank must consolidate its relevance in the region by new financial alliances and institutional strengthening.

**Strengthen Structural Reforms.** CABEI's consolidation process will require time and continuous strengthening. From a long term perspective, the Bank must continue to strengthen its strategic vision and business model with a focus on targeting development and integration, an adequate governance mechanism, financial management with a greater scope and a robust analytical framework.

**Strengthen an institutional culture focused on evaluating development impact.** CABEI has tools for evaluating institutional operations, which measure the Bank's impact on the region. Likewise, CABEI has an *ex ante* evaluation system to help measure long term impacts, and it has initiated mid term and *ex post* evaluation that identify the true impact of institutional operations, and it is working on adopting and streamlining new evaluation instruments<sup>8</sup>. This must be accompanied by the consolidation of a culture of initiative identification and design aimed at evaluating development impact, promoted through the implementation of these concepts into institutional operational actions by means of existing planning instruments.

<sup>7</sup> Impact evaluation has been measured through the I-CABEI tool, whose objective is to estimate the impact of operations on the region's development; there are *ex ante*, medium term and *ex post* evaluations.

<sup>8</sup> CABEI's Evaluation Office has presented a report denominated, Evaluation of CABEI's Contribution to Central American Development through its Institutional Strategy: years 2010-2013; the document presents important findings, most notable of which is the need to consolidate mechanisms for evaluating institutional performance over the next five years.

# II. CABEI 2015-2019

## INSTITUTIONAL STRATEGY

### A. MISSION AND VISION FOR THE 2015-2019 PERIOD

In the strategic period from 2015 to 2019, CABEI must face the challenge of consolidating its relevance with regard to development, economic integration and competitiveness. To achieve this objective, the Bank will provide improved and expanded attention to its member countries in order to contribute to the development of a financial sustainability scheme. In this regard, the Institution has defined as its strategic purpose, *“Maintaining its position of relevance as a multilateral bank in the Central American region, through efficient process and products tailored to the needs of its member countries.”*

**CABEI’s mission is pursuant to the provisions of article 2 of the Constitutive Agreement.** This article states that the “the Bank’s objective is to promote the economic integration and the balanced economic and social development of its founding member countries.” In practice, this goal has been extended to other non-founding members based on the reform to the Constitutive Agreement that permits the incorporation of non-regional members, as demonstrated by the operations approved for Panama and the Dominican Republic and the cooperation agreements with Colombia and Argentina. The reform indicates that the Bank’s mission must incorporate the different needs of all of the Bank’s members, which is expressed in the following line: *“The Bank’s objective is to promote the economic integration and the balanced economic and social development of its founding member countries, attending and aligning itself with the interests of all of its member countries.”* This approach recognizes that attention to the different needs of the members will require actions that permit the Institution to be a benchmark for cooperation to the region and a source of financing and promoting commercial trade among the companies of all of its member countries without prejudice to its primary objective.

#### STRATEGIC PURPOSE

“To maintain its position of relevance as a multilateral bank in the Central American region, through efficient processes and products tailored to the needs of its member countries.”

#### MISSION

“The Bank’s objective is to promote the economic integration and the balanced economic and social development of its founding member countries, attending and aligning itself with the interests of all of its member countries.”

#### VISION

“Strategic ally of its member countries in the provision of financial solutions that contribute to the creation of employment and improvement of the wellbeing and quality of life of its citizens.”

**The institutional vision for 2019 is based on the role that CABEI must play and the way it wishes to position itself as a promoter of the general welfare of its beneficiary member countries.** To this end, the Bank will continue strengthening its role of being the *“Strategic ally of its member countries in the provision of financial solutions that contribute to the creation of employment and improvement of the wellbeing and quality of life of its citizens.”* The vision provides an incentive to orient and structure CABEI’s strategic decisions to guarantee its relevance as a promoter of the region’s production potential. CABEI’s vision is grounded in its Constitutive Agreement, in the national priorities defined by the authorities of each member country and in the institutional experience acquired through attending the region.



## B. STRATEGIC AXES

Derived from CABEI's mission and vision, the CABEI 2015-2019 Institutional Strategy focuses on sustainable competitiveness and targets the Bank's contributions at the strategic axes of social development, competitiveness and integration. As a result of its experience, CABEI believes that support to its members must concentrate on promoting initiatives aimed at strengthening the factors that affect productivity levels in a context of public safety and sustainable environmental policies<sup>9</sup>. In this way, the Institution directs its attention to its member countries in three strategic axes:

### i. Strategic axis of social development



The strategic axis of social development is the principal means for contributing to compliance with the countries' priority development objectives: eradicate extreme poverty and hunger; promote universal primary education; foster gender equity and women's autonomy; reduce child mortality and abuse; improve maternal health care and that of the population in general; combat the principal diseases present in the region; guarantee environmental sustainability; and develop a regional and global partnership for development. It is important to note that CABEI's Gender Equity Policy establishes guidelines that have been considered for the design of the CABEI 2015-2019 Institutional Strategy in order to promote gender equity throughout the entire Institution. The guidelines of the strategic axis of social development include creating opportunities for job creation and income sustainability, as well as contributing to the development of human capital and strengthening coverage of services and basic needs.

### ii. Strategic axis of competitiveness



Limitations to productivity affect the sustainable development of Central America. As part of competitiveness, the productivity that the region needs requires both physical and institutional infrastructure, human capital and adequate investment levels. Competitiveness is a priority theme for the Central American agenda, especially for the purpose of taking advantage of trade openness and integration and fostering the region's development. Through this axis, CABEI seeks to continue promoting sustainable and inclusive economic growth, as well as establishing links with aspects of the axis of social development. The guidelines of the axis include: promoting strategic infrastructure initiatives in support of the countries' economic activity, promoting mobilization of capital for investment in productive sectors, supporting the modernization and institutional strengthening processes of founding member countries and contributing to the development of productivity through science, technology and innovation in order to promote employment.

<sup>9</sup> Global Competitiveness Index. World Economic Forum 2014-2015.



### iii. Strategic axis of regional integration



Pursuant to CABI's mission to promote regional integration, this strategic axis permits the Bank to focus its efforts on fostering the integration process. Through this axis, the Bank promotes infrastructure initiatives, such as the road network, ports and airports, which contribute to regional connectivity. It also finances energy generation to take advantage of the common energy market and supports financial intermediation to further intraregional production and trade, both agricultural and non-agricultural. To that end, the guidelines of the axis of regional integration are: contribute to strengthening intra and extraregional trade, promote the region's physical integration and support efforts to foster regional institutionalinity.

### iv. Transversal Axis of Environmental Sustainability



This research for environmental sustainability and reduction of vulnerability to natural disasters associated with climate change are fundamental for guaranteeing that the Bank's efforts focusing on social development, competitiveness and regional integration are environmentally viable on the medium and long term. In this sense, the Bank has established the axis of environmental sustainability as collateral for all its operations, and it has established a group of guidelines aimed at contributing to environmental sustainability in line with CABI's Environmental and Social Policy<sup>10</sup>; it is also implementing institutional responsibility plans<sup>11</sup>.

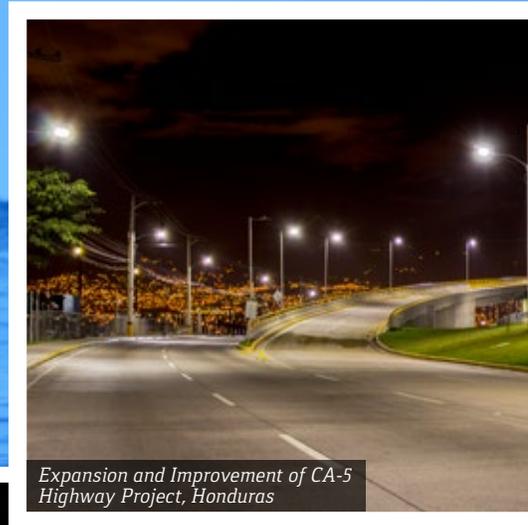
Figure 1  
**STRATEGIC AXES**



Source: CABI 2015-2019 Institutional Strategy Strategic Axes.

<sup>10</sup> Approved through Resolution No. DI-7/2009.

<sup>11</sup> It is necessary to add CABI's Intervention Framework for Climate Change to these guidelines; the Framework establishes that the Bank has the ability to contribute to climate change mitigation and adaptation through financing mechanisms such as pre-investment, direct-cofinanced financing, public/private association, trusts and financial intermediation programs to develop projects that prioritize impact on development.



Expansion and Improvement of CA-5 Highway Project, Honduras



Reventazón Hydroelectric Project, Costa Rica

## C. STRATEGIC OBJECTIVES

The CABEI 2015-2019 Institutional Strategy aims to continue its efforts to promote the region's balanced economic development. In order to strengthen Central American development, multilateral development institutions must be more effective in selecting the projects and programs that they finance in the region in order to achieve more rapid results, generate greater productive capacity and further improved income distribution for the most vulnerable population. To that end, CABEI focuses its credit operations on infrastructure that impacts competitiveness and human development, as well as on investment for gross capital formation to increase the productive capacity of its member countries<sup>12</sup>.

From a social perspective, CABEI will focus its actions on continuing to achieve the Millennium Development Goals (MDG) and the Post-2015 Development Agenda. The 2013 United Nations report<sup>13</sup> declares that significant progress has been made on many of the MDG in different parts of the world, especially on extreme poverty reduction, access to improved sources of potable water and important changes in health care and education. However, the report underlines that one out of eight people in the entire world continues to suffer from hunger, the maternal mortality rate continues to be high, and there is significant environmental deterioration in many regions. In recent years, CABEI has expanded its interventions in the sectors of health care, potable water and sanitation, housing and job creation through programs targeting small and medium enterprises that have a high impact on poverty reduction, principally in the relatively less developed member countries. The Bank will continue to establish financial alliances with other organizations to combat poverty in the region and to achieve its objectives associated with human development.

<sup>12</sup> It is important to mention that CABEI cannot use its ordinary resources to finance current expenditure operations, those that are simply financial or to close fiscal breaches. Any special operation of this type must have extraordinary funding and a rigorous framework with clearly described results to facilitate the follow up of its execution.

<sup>13</sup> United Nations, Millennium Development Goals. New York 2013.



*Xacbal Hydroelectric Project, Guatemala*

**CABEI’s institutional activity for five-year period from 2015 to 2019 will focus on two strategic themes: relevance and efficiency.** The strategic matters that will guide the Bank in its activity during 2015-2019 will concentrate on maintaining its relevance as the region’s multilateral bank and its positioning to its member countries by focusing its activity on their priorities: fostering social development, competitiveness and integration. Likewise, CABEI has decided that fostering the economic and social development of its members must be carried out in a framework of institutional efficiency that includes optimum processes, procedures and human capital appropriate for meeting the requirements presented by the initiatives oriented at contributing to development.

**The CABEI 2015-2019 Institutional Strategy establishes specific objectives for 2015-2019 in order to guarantee the relevance, positioning and sustainability of its interventions.** The strategic objectives defined by CABEI for 2015-2019 are directed at attending its clients and beneficiaries, strengthening its financial position, achieving greater structural efficiency and improved internal processes and fostering organizational capacity. The Bank’s mission and vision establish the framework for these objectives, and the methodology used for the process is presented in the Balanced Scorecard Table (BSC)<sup>14</sup>.

<sup>14</sup> It is important to note that this performance management tool was applied during the strategic periods from 2004-2009 and 2010- 2014.



### i. Clients and beneficiaries



The objective of this approach is to identify the fundamental elements derived from the value proposition used by CABEL to attend its members. As a multilateral development organization, this approach is the guiding element for the rest of the BSC perspectives for the time in question. The strategic objectives are presented as follows:

- 1. Consolidate the Bank's relevance as a strategic ally for contributing to the region's development.** This objective involves assessing the effects of CABEL's initiatives on contributing to development and their impact on the wellbeing and quality of life of the beneficiaries; expanding the portfolio that CABEL destines to the countries where it operates, as well as providing a net resource flow to the public sector of its founding member countries. All of these efforts must be aligned with the members' development needs. In addition, the objective involves strengthening the Bank's ability to respond proactively to the region's challenges, based on its comparative institutional advantages.

### ii. Finance

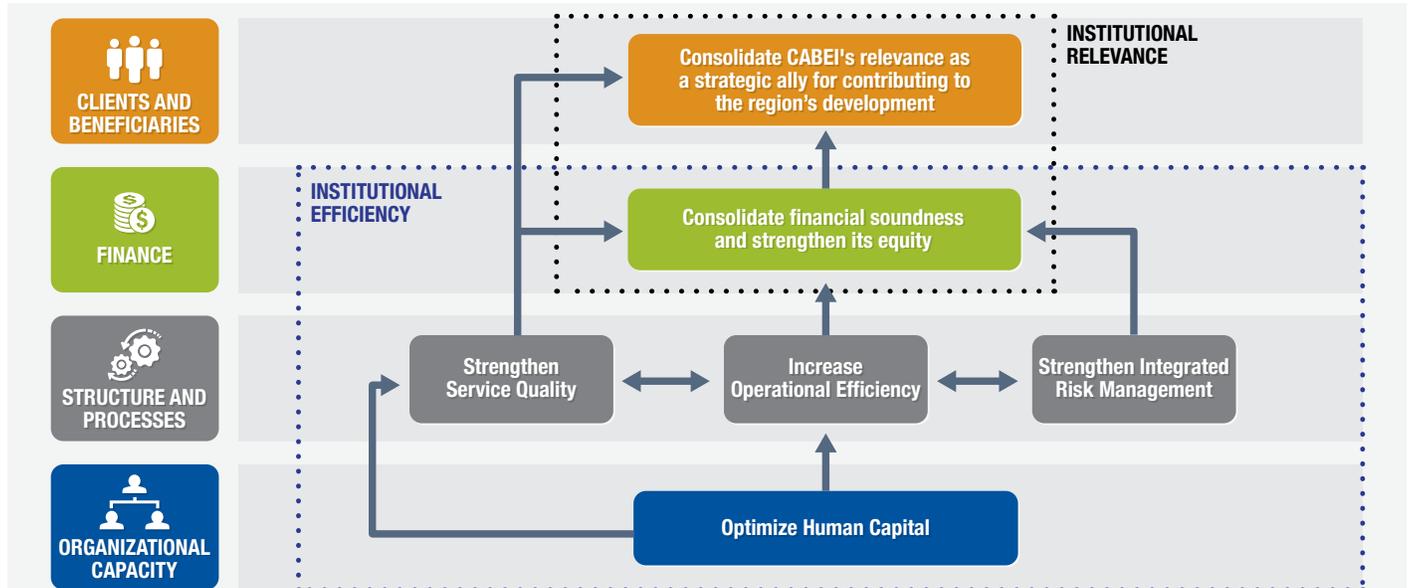


The CABEL 2015-2019 Institutional Strategy establishes that guaranteeing CABEL's relevance to the region will require strengthening the Bank in different areas, most notably in the area of finance. To that end, financial consolidation and equity strengthening are fundamental to providing the region with continuous attention aligned with the priorities established by its member countries. Therefore, CABEL must attend the following objective:

- 1. Consolidate the Bank's financial soundness and strengthen its equity.** Consolidation of the Bank's financial soundness and the strengthening its equity are fundamental to guaranteeing its long-term operational sustainability and to providing a constant flow of resources to the region. To that end, the strategic proposal aims to intensify the geographic diversification process of the public sector portfolio, as well as the incorporation of new members (in order to increase capitalization) as key elements for strengthening equity and improving the Bank's positioning in order to obtain upgraded risk ratings. Likewise, it is necessary to increase income and diversify its sources through profits derived from commissions and sales of financial services, as well as to act as an agent to promote and channel external funding.

Figure 2

## STRATEGIC OBJECTIVES



Source: Adaptation of the balanced scorecard tool to the 2015-2019 CABEL Institutional Strategy Objectives

### iii. Structure and Processes



With this perspective, the Bank seeks to guarantee operational efficiency, institutional alignment and adequate internal control through optimum response times, effective management tools and appropriate control mechanisms, pursuant to international standards, in order to mitigate the risks related with the Institution's operation. Along these lines, CABEL combines the elements involving structures and processes into a Balanced Scorecard (BSC) System, through which institutional activities are governed as mentioned above by management, articulation and alignment in a framework that includes the administration of quality processes and procedures, a standard internal control model and administrative development management, among others. Therefore, the components of the approach under question are complementary and are jointly assessed. The objectives associated with this approach are:

1. **Strengthen service quality.** CABEL proposes to continuously improve service quality by implementing protocols that permit it to ensure that its institutional activity is in line with the objectives that govern the Institution. This strengthening process will allow the Bank to maintain and guarantee service quality. The protocols, in addition to formalizing the process, will provide a benchmark for measuring the Institution's execution capacity and its achievements with regard to services.
2. **Increase operational efficiency.** The management mechanism for CABEL's development interventions must become more efficient and lasting. Likewise, it is important to improve the Bank's response times in attending the needs of its members without compromising institutional risk management.

3. **Strengthen integrated risk management.** CABEL must continue to adopt the best international practices for adequate risk management in order to improve institutional financial soundness, without neglecting adequate attention to its clients' needs.

### iv. Organizational capacity



This perspective involves the need to have a mechanism for human capital management in order to attract, retain and develop talent with the required skills, which are in line with institutional needs. In this respect, the Bank will build on the progress made regarding compensation policy and management of organizational performance and culture to strengthen the integration of these aspects and measure their results. To that end, the strategic objective of this approach will focus on:

1. **Optimize human capital.** Development plans, succession and high potential programs will be strengthened in order to close skills gaps, increase ownership and personnel identification with the Bank's needs and objectives. Likewise, the high-performance management culture will be strengthened to improve institutional competences related to result orientation, client service, institutional commitment, communication, quality and efficiency. Finally, attractive and competitive benefit plans must be maintained and guaranteed.



## D. FOCUS AREAS<sup>15</sup>

The Bank establishes focus areas in order to orient and order its interventions during the strategic period, as well as to characterize the market that it attends. This scheme permits the Bank to align its institutional action guidelines with the countries' national development priorities, maintaining the Bank's financial sustainability and taking advantage of its own institutional experience in diversification.

The 2015-2019 institutional proposal will concentrate on supporting the areas of human development and social infrastructure; productive infrastructure; energy; rural development and the environment; financial intermediation and development finance; and competitiveness services. For this strategic period, CABEL has defined these areas especially because they coincide with the priorities established in the national development plans of all the Central American countries, and the institutional experience in supporting the region's needs. It is important to note that each specific area is composed of a group of intervention initiatives, which limit the scope of each one during the five-year period<sup>16</sup>.

### Human development and social infrastructure<sup>17</sup>



The Bank will support initiatives that improve human capital development and the population's quality of life by providing services to cover basic needs and by creating opportunities to bolster the labor market. The following are some of the initiatives that could be undertaken in this focus area: initiatives to support water and sanitation projects; waste elimination and treatment and related activities; support for educational credit; educational systems, equipment or infrastructure; professional formation; technical training; informal training; support for systems; equipment or infrastructure for healthcare and social housing.

<sup>15</sup> There is a noteworthy document describing the relationship between the focus areas and the sector strategies in force (nowadays sector interventions); which is mentioned later for each one of the priority segments (Operational relationship between the sector strategies and the focus areas of the 2010-2014 Institutional Strategy, Resolution No. PRE-42/2013).

<sup>16</sup> A breakdown of all the initiatives that CABEL will attend in the 2015-2019 strategic period will be defined in the Manual for the Strategic Classification of Development Interventions.

<sup>17</sup> In addition to CABEL's extensive experience in the region, the initiatives defined for the focus areas of human development and social infrastructure are backed by the countries' national development plans, the intermediate evaluation of the institutional strategy, the Modernization Plan (Resolution No. AG-10/2011), the analysis contained in the Central American Study on Housing and Human Settlements (Resolution No. DI-50/2009), the CABEL Environmental Strategy (Resolution No. DI-93/2011), Product Norms of the Global Credit Line Product (Resolution No. DI-35/2014) and the Framework for Intervention in Industry (Resolution No. DI-60/2013), among others.



## Productive infrastructure<sup>18</sup>



The Bank will consider initiatives that favor the development of the region's productive capacity through interventions involving road infrastructure<sup>19</sup>, airports, ports and telecommunications projects. Under this focus area, CABEI may join forces with

international integration projects in the region, such as the International Network of Mesoamerican Highways (RICAM) and the Mesoamerican Integration Corridor, among others. The intervention initiatives that fall under this focus area are: development of port and airport infrastructure or related services; road infrastructure (connecting with borders or otherwise) and telecommunications.



Monseñor Romero Boulevard Project, El Salvador

## Energy<sup>20</sup>



CABEI will support initiatives focusing on sustainable energy generation, transmission and distribution in order to strengthen regional energy quality and coverage. Under this focus area, CABEI may join forces with international integration projects in the region, such

as the Central American Electrical Interconnection System (SIEPAC), and the Regional Electricity Market, among others. The intervention initiatives in this focus area include: renewable energy generation at a local level, renewable energy generation at a regional level, non-renewable energy generation at a local level, non-renewable energy generation at a regional level, the efficiency of the energy matrix, energy transmission and distribution at a local level and energy transmission and distribution initiatives at a regional level.



<sup>18</sup> The productive infrastructure area takes as a reference the institutional documents described for the area of human development together with CABEI's Support Strategy to Infrastructure Development for Central America (Resolution No. DI-194/2007), the CABEI Strategy to Obtain Concessional Resources (Resolution No. DI-88/2008), the CABEI Environmental Strategy (Resolution No. DI-93/2011) and the Product Norms of the Global Credit Line Product (Resolution No. DI-35/2014).

<sup>19</sup> Includes principal and secondary highways, rural roads and bridges.

<sup>20</sup> For its part, Energy is considered in CABEI's strategy for Support to the Central American Energy Sector (DI- 1/2008), in addition to other institutional documents.



*Sustainable Integral Development of Quetzal Corridor Program, Honduras*



*Chimaltenango, Sololá and Totonicapán Development Program, Guatemala*

## Rural development and the environment<sup>21</sup>



The Bank will support interventions in favor of agricultural, forestry and fishing activities under a scheme of rural development, environmental sustainability and community strengthening. The intervention initiatives in this focus area include: agricultural, forestry or fishing initiatives by micro, small and medium producers; agricultural initiatives; sustainable forestry, fishing or rural initiatives compatible with environmental conservation; agricultural health and/or food security initiatives; and initiatives for rural entrepreneurial development, reforestation and conservation of the environment, natural resources and environmental services. It also includes initiatives involving climate change adaptation and mitigation with respect to vulnerability, adaptation to climate change and variability and risk management, as well as aspects related to environmental mitigation and strengthening of regional institutional capacities, among others<sup>22</sup>.

<sup>21</sup> Documents considered for the study and analysis of this area include Agribusiness Strategy for Central America (Resolution No. DI-163/2007) and CABI Environmental Strategy (Resolution No. DI-93/2011), in addition to CABI's experience in the sector and the countries' realities defined in their development plans, among others.

<sup>22</sup> In addition to the CABI Environmental and Social Policy for the five year period from 2015 to 2019, the approval and implementation of a framework for CABI's Climate Change Intervention.



**Financial intermediation and development finance<sup>23</sup>**



CABEI will support initiatives aimed at strengthening entrepreneurship in the Central American region, economic growth and capitalization through financial intermediation and the expansion of the regional financial system. Initiatives in this focus area include: intermediated financing with productive or related ends; intermediated financing for micro, small and medium enterprise (MSME); support to liquidity and expansion of the financial system; entrepreneurship initiatives for micro, small and medium enterprise; and initiatives to promote investment instruments for microfinance organizations, cooperatives and medium enterprises, among others.

**Competitiveness services<sup>24</sup>**

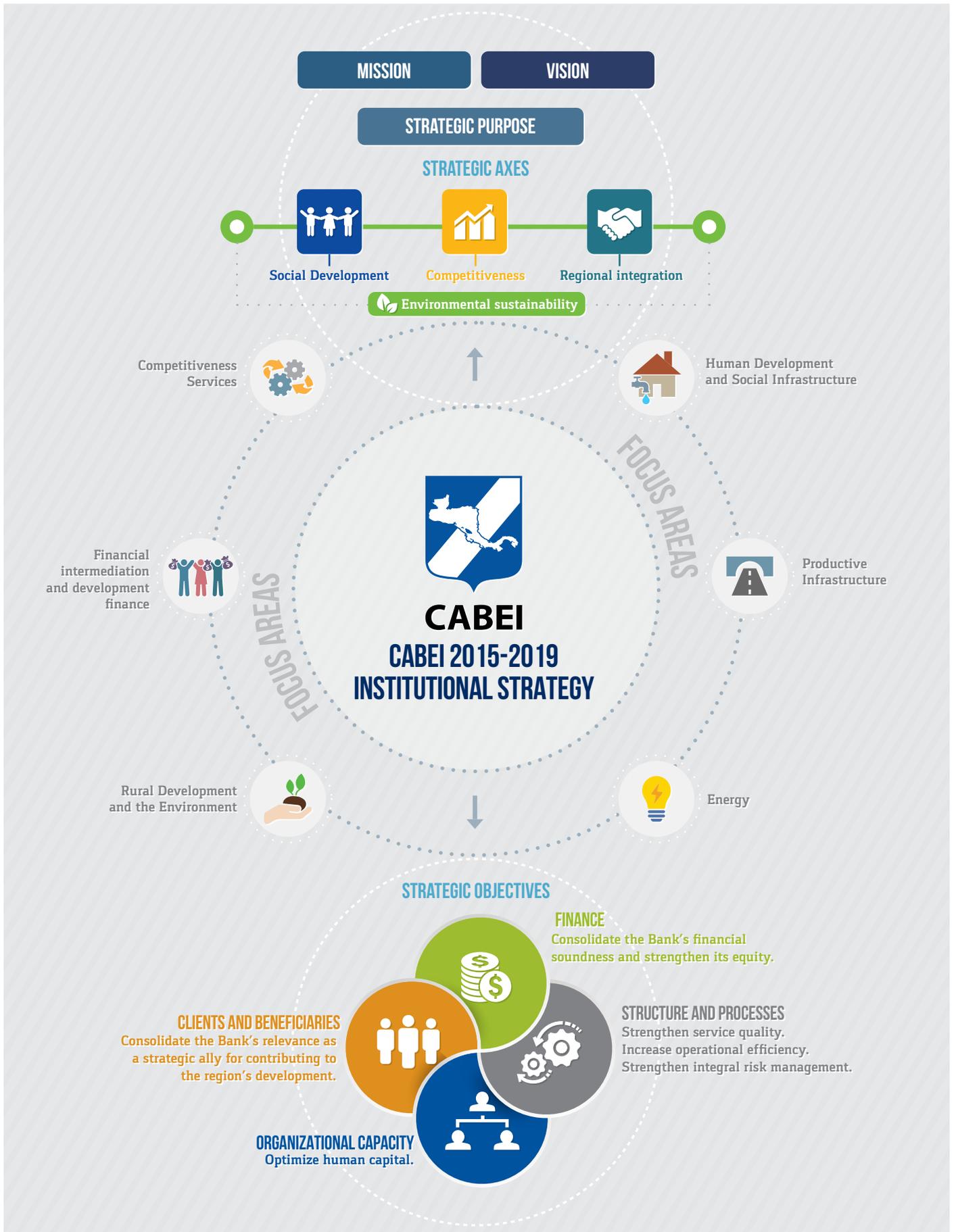


The Bank will undertake initiatives that favor the strengthening of capacities in activities involving trade, industry, services, tourism and strategic infrastructure. As a result, the following are initiatives that may be supported in this focus area: promoting regional or foreign trade; support to industrial or service-related activities; innovation and technology development; and equipment to strengthen commercial or industrial competitiveness, among other initiatives associated with business development, urban development, projects for the development of tourism, transportation and government infrastructure and support for public safety in the framework of the Central American Security Strategy<sup>25</sup>.

<sup>23</sup> For the area of financial intermediation, the following documents were considered: the Productive Norms of the Global Credit Line (Resolution No. DI-35/2014), the Strategy to Strengthen Foreign Trade (Resolution No. DI-20/2008), CABEI's Strategy for Raising Concessional Resources (Resolution No. DI-88/2008) and the CABEI Financial Strategy (Resolution No. DI-143/2012).

<sup>24</sup> This focus area takes into account the CABEI's strategic guidelines for the tourism sector (Resolution No. DI-193/2007), the Central American Strategy for Housing and Human Settlements (Resolution No. DI- 50/2009) and the Framework for Industrial Intervention (Resolution No. DI-60/2013), among others.

<sup>25</sup> Through Resolution No. DI-146/2013, the Program of Support to the Central American Security Strategy has been proposed for the five year period from 2015 to 2019 in the Framework of CABEI's Intervention for the public security sector.



# III. MECHANISMS FOR IMPLEMENTATION OF THE STRATEGY



## A. BUSINESS MODEL

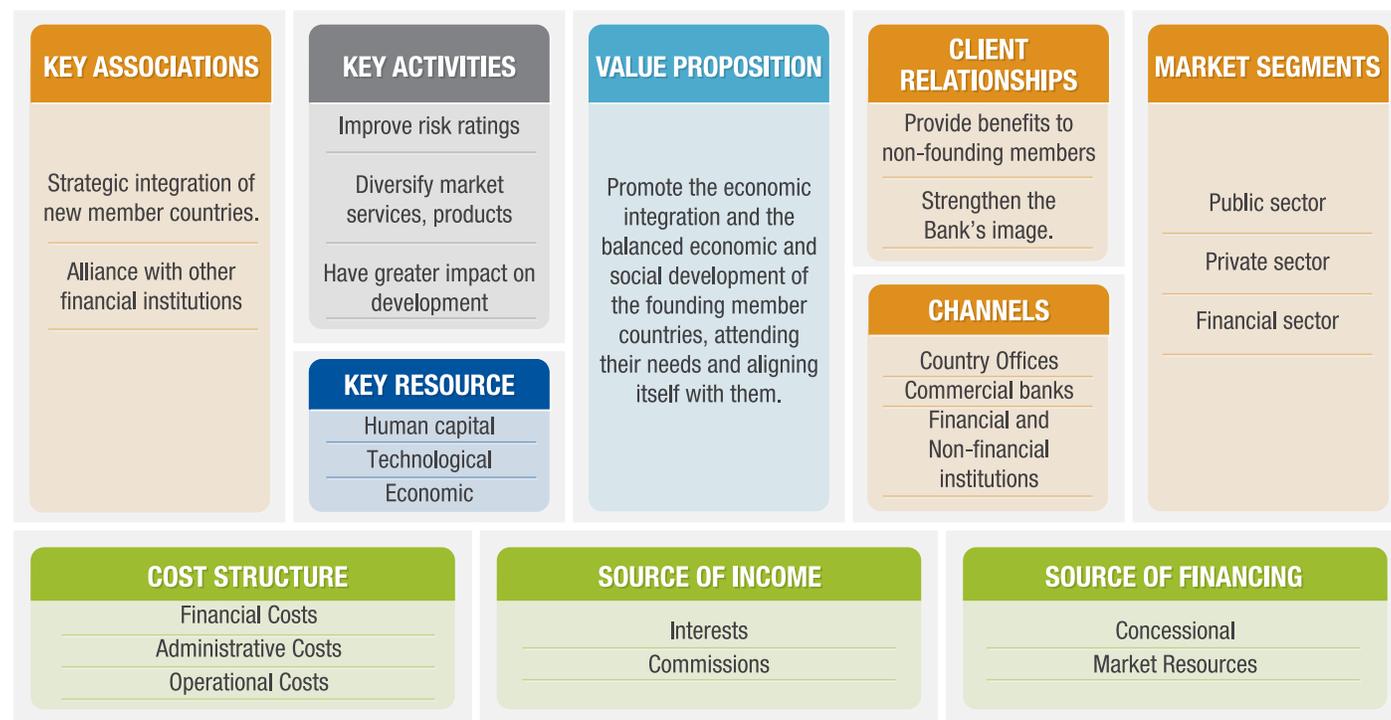
**CABEI has a value proposition aimed at promoting the economic integration and the balanced economic and social development of its founding member countries.** During the past five years, the Bank has targeted its efforts at complying with the provisions in article 2 of the Constitutive Agreement, which were the basis for the mission proposed for the 2010-2014 period. By strengthening this value proposal, the Bank will guarantee the sustainability of its institutional activity and of improved attention to its member countries.

**The scenario projected for the 2015-2019 period will require a dynamic value proposal aimed at promoting the balanced economic and social development of the founding member countries, and attending and aligning itself with the members' interests.** The value proposition for the new CABEI business model involves expanding current coverage to include attention to and alignment with the interests of all its member countries. This strategy is grounded on the provisions of article 2 of the Constitutive Agreement and the modernized guidelines of institutional activity, the assessments of CABEI's position with regard to financial sustainability and the members' development needs and priorities.

**Strengthening CABEI's value proposition will require key activities that permit it to reinforce its relevance in the region and its positioning to its members.** There are a number of important activities for defining a value proposition; the Bank will focus its strategy on consolidating the implementation of two particular aspects. On one hand, it is important to diversify the market, services and products in order to provide the Institution with an upgraded credit rating, and permit it to provide funding alternatives tailored to the characteristics of the sectors that it attends. On the other hand, it is necessary to improve the Bank's risk rating in order to facilitate funding in international markets under more competitive financial conditions. Furthering these actions will require a strengthened position in order for the Bank to face current and future conditions.

Figure 3

## CABEI BUSINESS MODEL



Source: Construction of OPEP according to CANVAS methodology

**During the period from 2015 to 2019, CABEI will strengthen its strategic alliances, which will lead to new funding.** Strengthening existing relationships and establishing new strategic alliances will allow the Bank to maintain sustained growth of its operations and present the possibility of generating complementarity and synergies with other actors, including their incorporation as non-regional Bank members. Likewise, to achieve its defined value proposal, CABEI will continue to develop the resources it has on hand (human, economic and technological) so that it can provide concrete responses to its members' priorities, optimize its operational activity and facilitate more competitive funding.

**The value proposition will also be consolidated through the Bank's reinforcing its relationship with its members, as well as through the development of attention channels.** CABEI plans to promote its relationship with its members, which will have positive effects on the risk rating and strengthen the Bank's image to its members; at the same time it will guarantee the Institution's relevance and positioning. In addition, the Bank's value proposition will lead to improved efficiency in carrying out the activities at the Bank's regional country offices and to strengthening its relations with the financial system in order to ensure an open and fluid communication channel for the prioritization of institutional capacities and needs.

**CABEI's value proposition is grounded in a viable, sustainable and consistent financial strategy, in addition to a market segmentation pursuant to its members' characteristics and needs.** CABEI's financial strategy has a concrete objective: strengthen the creation and raising of capital, including market and concessional resources, in order to efficiently and consistently attend the financial needs of its members. The strategy is focused on diversification, improving its credit rating and raising more competitive resources that permit CABEI to more efficiently serve the market segments that it attends (public, private and financial sectors).

**In conclusion, CABEI's value proposition will focus on attending the development needs prioritized by its members in a scenario of financial sustainability.** The value proposition supports the strengthening of its members' positions in the areas of social development, competitiveness and regional integration. Therefore, to ensure CABEI's sound position in the face of these challenges, it will foster the interrelationship between its members, adequate market segmentation and a feasible financial proposal.



## B. FINANCIAL PROGRAMMING

### i. 2010-2014 Results

During the 2010-2014 period, CABI began a transformation to strengthen its role in the region's economic development.

The transformation process was executed through measures and actions that have permitted it to adjust its operational instruments in order to improve the efficiency of the Bank's operations and reinforce its contribution to development. In this way, in spite of an adverse international economic environment, the Bank has made an important impact on changing the region's energy matrix, increasing water and sanitation services for the population, expanding hospital capacity in a number of countries and reducing transaction costs involved with the construction of highways and other related infrastructure, among other achievements<sup>26</sup>.

**CABI Issues in international markets.** In spite of rigidities and latent risks in capital markets related to the international financial crisis, CABI was able to ensure the necessary resources to comply with its obligations throughout the fiscal year and provide financing at the lowest and most stable cost possible to benefit its member countries. Pursuant to this objective, during 2010-2014 the Bank sought to diversify financing sources based on the following three pillars: instruments, expiration dates and markets.

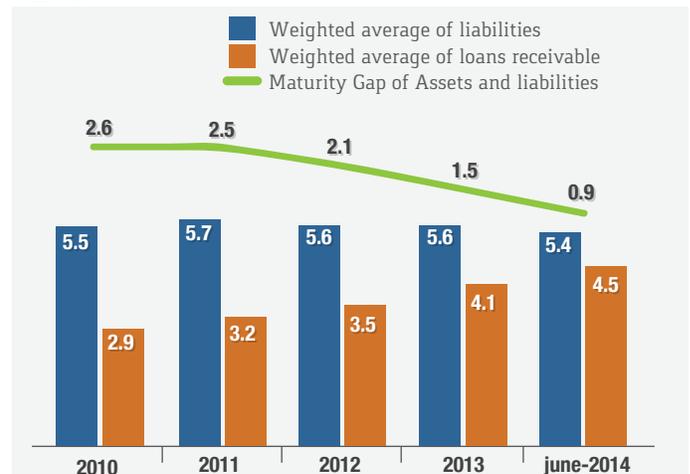
**Implementation of the CABI Financial Strategy<sup>27</sup> has permitted an increase in the weighted average term of the Bank's liabilities.** This achievement has been positively assessed by risk rating agencies because it has been carried out extremely efficiently without affecting funding costs.

Table 3  
RESULTS OF THE 2010-2014  
FUNDING STRATEGY (US\$ MILLION)

Instrument	2010	2011	2012	2013	2014*	Total
Bond Issue	276.5	493.2	619.0	838.0	342.5	2,569.2
MT and LT Concessional Lines	71.4	51.3	36.5	19.3	14.9	193.4
MT and LT Institutional Lines	198.2	242.3	149.0	240.9	24.2	854.6
Total	546.1	786.8	804.5	1,098.2	381.6	3,617.2

\*Data through June 2014.  
Source: AOP Execution reports.

Graph 3  
MATURITY GAP OF ASSETS AND LIABILITIES  
(YEARS)



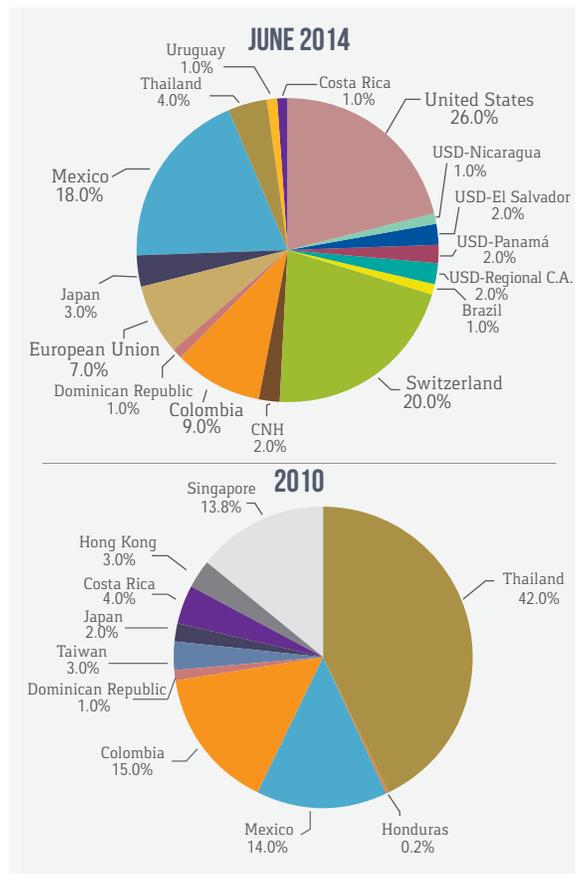
Source: Constructed from CABI's data base.

<sup>26</sup> CABI Evaluation Office op. cit. pages 35-37; illustration presented about CABI's effects on the region's development for the 2010-2013 period.

<sup>27</sup> CABI's Institutional Strategy, approved through Resolution No. DI-143/2012, provides CABI with a general reference framework under which it carries out its financial administration; it provides elements that permit the Bank to achieve an equilibrium between risk and profitability criteria, guaranteeing the availability of financing sources necessary to comply with the Bank's development objectives established in the framework of the institutional strategy at all times.

**The principal vehicle for the Bank's medium and long term funding is the Bank's Medium Term Note (MTN) Program.** The Medium Term Note Program has permitted the Bank to issue securities in different currencies and with different terms and interest rates in international capital markets, both in Central America and on an international level. As a result, during the 2010-2014 period, the size of the MTN program increased from US\$2.50 billion to US\$4.00 billion. As part of CABEI's evolution in international capital markets, through June 2014, the Bank had carried out bond placements in 16 currencies and 19 different markets. It is expected that in the remainder of 2014, a new currency and market will be added as the Bank makes an incursion into the Australian capital market by establishing and registering an Issue Program totaling up to 600 million (600,000,000.0 Australian dollars).

**Graph 4**  
**MEDIUM NOTE TERM PROGRAM**  
**(PERCENTAGE)**



Source: Constructed by CABEI using the Financial Division database.

**Achievements of the CABEI Financial Strategy.** In light of best financial management practices and pursuant to the provisions of CABEI Modernization Plan, during the 2010-2014 period the following were the notable achievements:

- Implementation of the Bank Capitalization Scheme<sup>28</sup>.
- Improvement to the risk rating that has permitted CABEI to consolidate itself as a Bank with high credit quality, having reached the AA range for the first time. Four (4) of the twelve (12) upgrades have been carried out in the 2010 - 2014 strategic period.
- Concessional financing for Honduras and Nicaragua. Between January 2008 and August 2014, the aggregate amount of CABEI's approvals and those of bilateral and multilateral organizations to Honduras and Nicaragua, including the mobilization of concessional resources from these organizations, totaled US\$2.72 billion<sup>29</sup>.
- Reactivation of the Special Fund for the Social Transformation of Central America (FETS). The approval<sup>30</sup> of the new FETS Organic Statute will permit CABEI and its allies to channel resources to high impact programs and projects for the region's development, principally in the most vulnerable communities. The institutional commitment to this Fund was demonstrated by the allocation of one percent of its annual profits to capitalize FETS, which led to a contribution of 11.7 million in fiscal year 2012. Subsequent to its renovation, FETS has promoted resource channeling to attend initiatives with a regional character<sup>31</sup>: US\$10.9 million in donations and US\$40.0 million in concessional loans.
- Implementation of a new interest rate scheme for the public sector.
- Determination of the Bank's credit capacity through the formulation of a medium term Financial Projection (2013-2017 period).
- Documentation of the CABEI Financial Strategy; this is an unprecedented exercise for Multilateral Development Agencies.
- Implementation of a General Capital Management Plan, streamlining Asset and Liability Management.
- Updating of financial policies: Active Interest Rate Policies, Asset and Liability Management Policy and Resource Allocation Policy, among others.

<sup>28</sup> Resolutions of the CABEI Board of Governors No. AG-6/2009 and No. AG-7/2009 of April 29, 2009.

<sup>29</sup> Includes the raising of approvals for an aggregate amount of US\$1.28 billion, derived from Indirect ODA (US\$282.2 million), non-reimbursable FETS cooperation (US\$34.2 million) and ordinary resources to co-finance programs and projects with financial support from bilateral and multilateral organizations (US\$960.5 million). Co-financing resulted in additional resources totaling US\$1.44 billion.

<sup>30</sup> Resolution No. DI-58/2012.

<sup>31</sup> Regional Coffee Rust Pilot Program, Construction of Bridges on the Anguiatú and Paz Rivers at the Border between El Salvador and Guatemala, as well as the La Hachadura programs and the Italian Program for the Promotion and Restoration of Cultural Goods.

Table 4

## COMPLIANCE WITH INSTITUTIONAL GOALS 2010-2014 (US\$ MILLION)

Indicador	Strategic Goal <sup>1</sup>	Values Observed <sup>2</sup>	Absolute Variations	Relative Variations
Approvals	4,880.5	7,711.2	2,830.7	58.0
Disbursements	5,150.5	6,867.9	1,717.4	33.3
Recoveries	3,227.5	5,473.1	2,245.6	69.6
Net Flows	1,924.1	1,394.8	-529.3	-27.5
Portfolio Balances	6,181.5	5,644.0	-537.5	-8.7

<sup>1</sup> The reference is the average value of the estimated range.

<sup>2</sup> The value for 2014 was established with data observed through June and the estimates for subsequent months.

Source: the CABI 2010-2014 Strategy, data from Annual Reports and the AOP.

In April 2009, the CABI Board of Governors approved a 150.0% increase in the Bank's authorized capital, passing from US\$2.00 billion to US\$5.00 billion<sup>32</sup>. As a prior step to the capital subscription process, reforms to the CABI Constitutive Agreement had to be ratified by the Costa Rican Congress, as a result of a reservation presented by that country to the modification procedure of the abovementioned agreement. That ratification took place on June 14, 2012, and on the same date, pursuant to the provisions of subheading d) of Article 35 of the Constitutive Agreement, the Bank officially communicated to all of its members that the reforms would enter into force three (3) months thereafter. Consequently, on September 15, 2012 the modifications to the CABI Constitutive Agreement entered into force, beginning the Bank's capital subscription process.

On December 19, 2012, the steps planned for acquiring the capital subscriptions from the CABI member countries in the framework of the Capitalization Scheme were completed. After approving 12,500 additional shares requested by the Republic of China (Taiwan) at the Fifty-Third Ordinary Meeting of the Board of Governors, new capital payments in cash were confirmed for an aggregate amount of US\$84.4 million to be received by the Bank over a period of four (4) years. Since twenty (20) years have passed since the last capitalization, the present process will lead to consolidation of CABI's credit capacity, permitting the generation of positive capital flows to its beneficiary members and strengthening its credit profile for risk rating agencies. Through June 30, 2014, the Bank had received cash payments from its member countries for an aggregate amount of US\$28.3 million.

**The Bank's financial outlook was surpassed.** The efficiency of the resource contracting process made it possible to surpass the goal in the 2010-2014 Institutional Strategy. Thus, during the 2010-2014 period<sup>33</sup> the Bank's Board of Directors approved operations totaling US\$7.71 billion; compared to the US\$4.88 billion programed in the Strategy, this represents compliance of 158.0%. For their part, disbursements to the countries amounted to US\$6.87 billion during the period, presenting compliance of 133.0% compared to the Strategy's goal of US\$5.15 billion.



<sup>32</sup> This was approved through Resolutions No. AG-6/2009 and No. AG-7/2009.

<sup>33</sup> For the year 2014, the data observed through June was used and the closing estimate (July to December) established in the 2014 AOP.



Modernization of Irrigation Project in Comayagua Valley, Honduras

## C. FINANCIAL ACTIONS TO CARRY OUT IN 2015-2019

**Improve the international credit risk rating.** In recent years, CABEI has prioritized the objective of continuing to improve its credit rating, which has been reflected in a positive evolution of the ratings granted by the specialized agencies. A positive risk rating translates into financial and credit strength, as well as into opportunities to increase funding in the international markets under improved conditions. Consequently, the continuous improvement of the Bank's credit rating constitutes a strategic action with the objective of positioning the Institution in an optimum position to carry out its role as a financial intermediary and to maintain its relevance in the beneficiary countries. In this regard, the cross-cutting axis of the CABEI Financial Strategy in the 2015-2019 period will continue to be the Bank's risk rating.

**Table 5**  
**CREDIT RISK RATINGS (JULY 2014)**

Concept	Moody's Investors Service	Fitch Ratings	Standar & Poor's	Japan Credit Rating Agency
Long Terms in Foreign Currency	A1	A	A	AA-
Short Term in Foreign Currency	P-1	F1	A-1	s/d
Perspective	Stable	Stable	Stable	Stable

Source: Risk rating agencies

**Strengthen the Bank's capital position.** The principles for the Bank's capital structure<sup>34</sup>, established by the Board of Governors, are being implemented by all the member countries in order to complete this important stage in the Bank's capitalization process.

**Incorporation of new members.** The Bank's medium term strategy establishes a goal of incorporating new strategic members to strengthen CABEI's equity in a context of the potential growth expected for the next five-year period. In this sense during 2014, and in the framework of the 53rd Ordinary Meeting of the Board of Governors, CABEI's Senior Management presented a series of initiatives aimed at strengthening the Institution's equity position; by their nature, these initiatives require modifications to the current Constitutive Agreement. In light of the above, the Board of Governors<sup>35</sup> requested the preparation of an action plan in order to learn about the eventual modifications to the Constitutive Agreement and the Bank's internal norms that will permit it to execute the actions proposed by Senior Management in order to make participation in CABEI's capital position more attractive to new members, thereby making it possible to receive new capital payments.

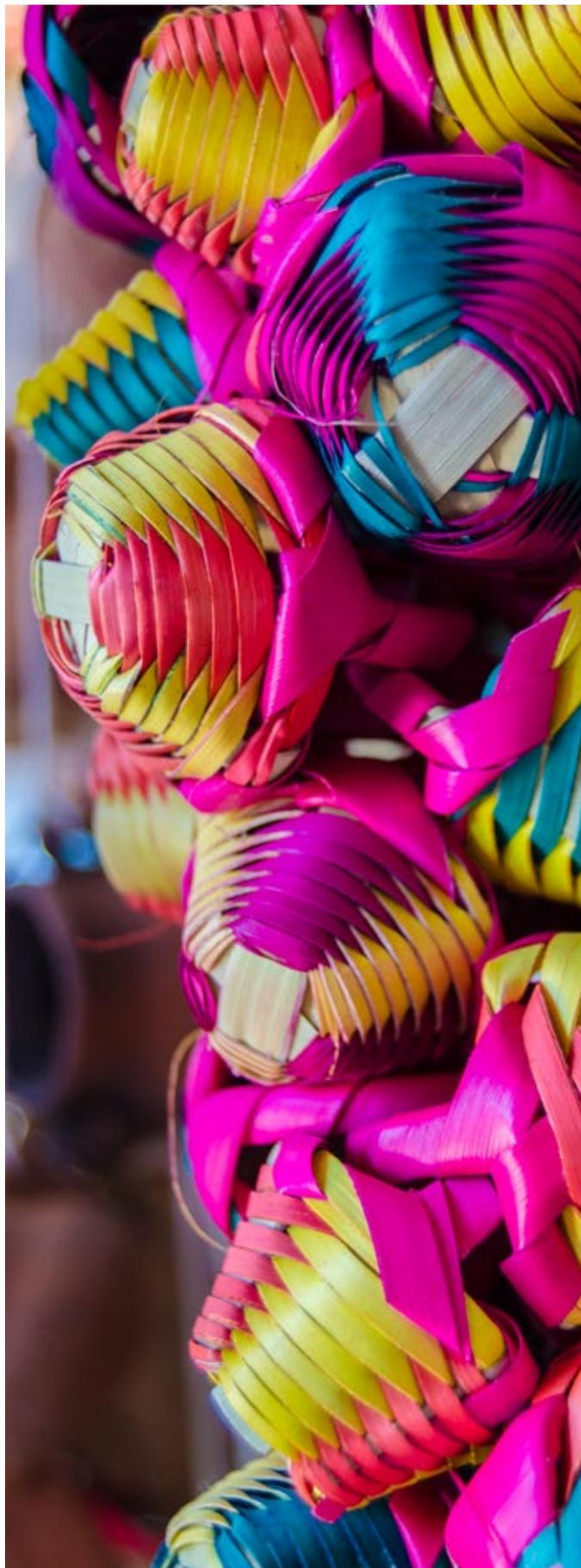
<sup>34</sup> Resolutions No. AG-06/2009 and No. AG-07/2009.

<sup>35</sup> Approved through Board of Governors Agreement No. AGOB-1/2014.

**Geographic diversification of sovereign exposure.** According to the new methodologies of risk rating agencies for evaluating Multilateral Development Banks (MDB) like CABEL, the individual credit evaluation of the MDB will be strongly influenced by the geographic concentration of sovereign exposure, since this leads to additional capital allocations and as a result a decrease in the capital adequacy levels of these institutions. This tends to have a significant effect on regional and sub-regional MDB like CABEL, whose mandate focuses on providing financial solutions to the public sector of its beneficiary countries. For that reason, the concept of geographic diversification of sovereign exposure is defined as an additional source of equity strengthening, given the lower capital consumption that is produced by providing new credits to beneficiary countries where the Bank has less credit activity. As a result, increasing public sector credit exposure in those countries that have a lower participation in the current distribution of the Banks's loan portfolio will be a strategic initiative to promote in the 2015-2019 period.

**Consolidate profit generation at sustainable levels.** In line with the principle of institutional self-sustainability, CABEL has maintained consistent levels of profits. It has generated an average of more than US\$100.0 million in net profits per year over the past five years, which have been allocated to the general reserve. However, the Bank will continue to seek financial mechanisms that permit it to increase its future profits through the formulation of new products that allow it to generate other income, a prudent credit policy with regard to client risk management, reduction of resource costs and efficient budget management.

**Diversify stable financing sources.** Diversifying capital markets where the Bank raises funds not only decreases the risk of concentration or overdependence on a specific market but also allows the Bank to find efficient alternative financing sources by providing the flexibility necessary to attend the particular needs of each kind of investor. Bilateral financing represents a formal channel through which the international community promotes initiatives pursuant to its specific or particular development objectives; this funding source optimizes opportunities to form strategic alliances with countries and official organizations from other continents with a high credit profile.





Cerro de Hula Wind Project, Honduras

## D. FINANCIAL OUTLOOK FOR THE 2015-2019 STRATEGY

CABEI seeks to maintain a solid financial position by maintaining optimum capitalization levels and continuing its leadership role in the financing of projects and initiatives that have a positive impact on the region's development and integration. In this sense, fresh resources from the incorporation of new members, strategic alliances with other organizations, and incursions in new capital markets will permit CABEI to achieve the goals planned for the five year period; the Bank will also undertake actions like portfolio diversification in priority areas in order to improve its credit position.

Maintaining a positive net flow of capital to its member countries will permit the channeling of CABEI resources in a focused manner to the countries' priority strategic sectors. In general, CABEI will make a greater effort to provide resources to the countries guaranteeing the alignment of interventions with the regions realities and priorities in order to provide positive net flows for each country, while seeking long term balanced and sustainable distribution of net flows<sup>36</sup>.

<sup>36</sup> Along these lines, to attend the needs of its member countries, CABEI will provide different financial solutions, including subordinate debt operations, prioritizing the effects on the portfolio derived from strategic objectives of institutional relevance.

Table 6

## FINANCIAL OUTLOOK 2015-2019

(US\$ MILLION)

Concept	2015	2016	2017	2018	2019	Accumulated 2015-2019	Average 2015-2019
Approvals	1,497	1,588	1,894	1,894	1,894	8,765	1,753
Disbursements	1,400	1,539	1,869	2,119	2,354	9,281	1,856
Recoveries	1,052	1,119	1,225	1,418	1,584	6,398	1,280
Net Flow	348	421	643	702	770	2,884	577
Portfolio	6,033	6,454	7,097	7,799	8,569	-	-

Source: Constructed from the Financial Division data base

**The principal funding needs are derived from growth of the Bank's operations, which result from the country's demand for resources, in addition to the expiration of debt obligations acquired by the Bank.** In its financial strategy, CABEI prioritizes funding in order to strengthen the creation and raising of capital, market resources and concessional resources in order to provide efficient and continuous attention to the region's financing needs. This activity involves attention to the specific needs of each of the focus areas defined in the Bank's Institutional Strategy, as well as the optimum raising of low cost concessional resources and channeling non-reimbursable resources to the beneficiary countries<sup>37</sup>.

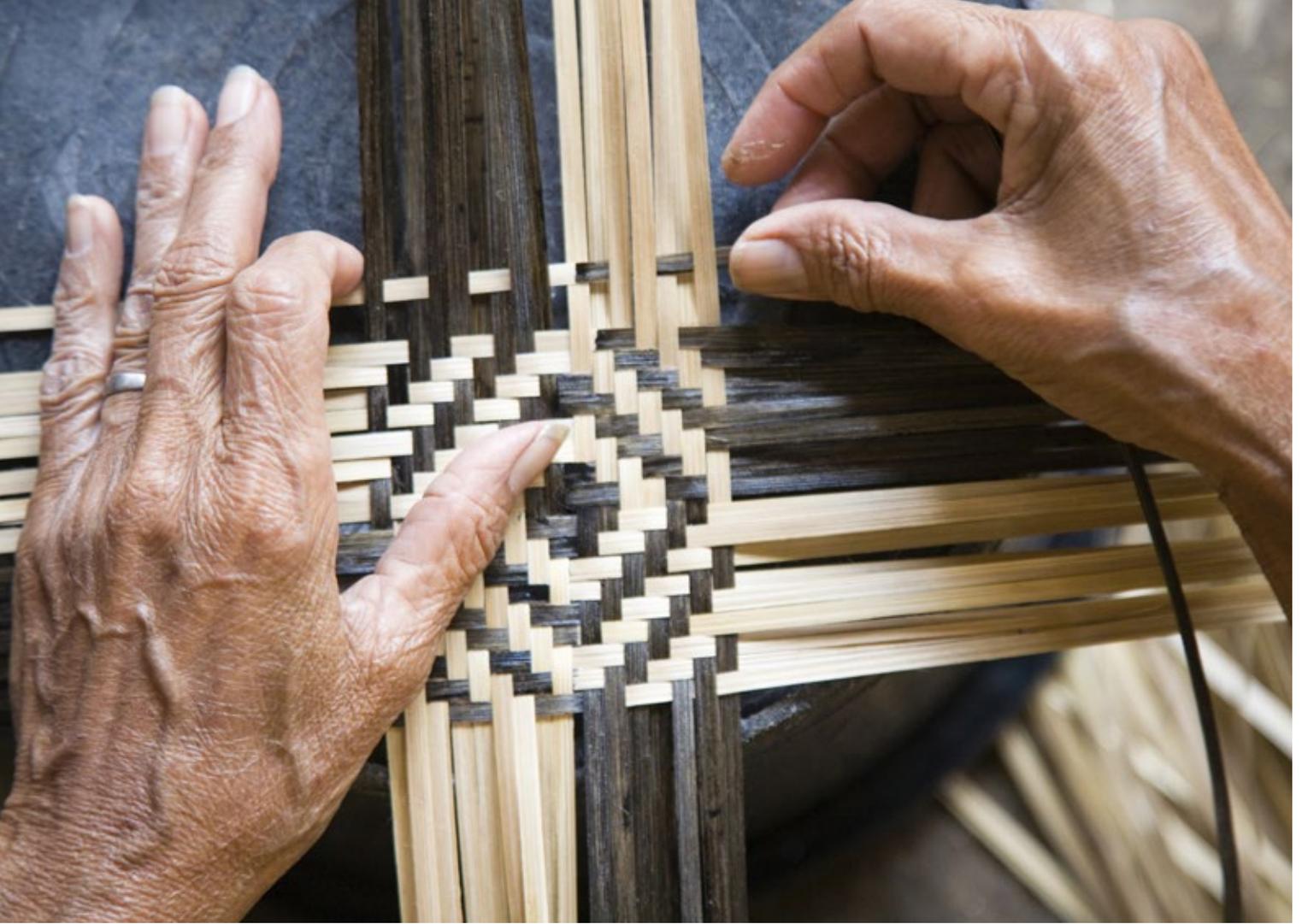
**The CABEI 2015-2019 Institutional Strategy is based on a financial outlook that forecasts portfolio growth ranging between 6.1% and 10.0%, according to the trending scenarios.** These financial expectations are based on the following assumptions:

- i. A capital adequacy of at least 38%<sup>38</sup>, in order to ensure compliance with the equity adequacy ranges defined by the Bank's risk rating agencies.
- ii. Average annual portfolio growth of 8.6%.
- iii. Average annual equity growth of 7.5%.



<sup>37</sup> It is important to note that CABEI may promote concessional financing for operations that incentivize certain sectors of interest for the countries, such as EXIMBANK operations that stimulate trade to and from the region, among others.

<sup>38</sup> The capital adequacy index has been the main indicator for monitoring and evaluating the Bank's equity adequacy; it is defined as the ratio: (equity/risk-weighted assets)\*100%. These assets are weighted by the risk coefficients established by the Basle Committee on Bank Supervision.



## E. INSTITUTIONAL STRATEGIC ALIGNMENT

In order to maximize the effects of CABEI's contribution to the development of its beneficiary countries, the CABEI 2015-2019 Institutional Strategy will be executed pursuant to its Strategic Institutional Framework<sup>39</sup>. In this context, the execution of the Institutional Strategy will be based on the country strategies, the frameworks for sector intervention and the Annual Operational Plan, so that the Bank's interventions maintain a coherent vision on both a regional and country level.

**The CABEI 2015-2019 Institutional Strategy will act as an instrument of technical alignment between the mandate established in article 2 of the Constitutive Agreement and the region's development needs and priorities.** Likewise, the proposals with respect to the Bank's mission, vision, objectives and strategic axes, as well as the focus areas will serve as a global guide for the formulation and design of the other intervention instruments. In this sense, the preparation of the instruments will be based on a methodological scheme and a timetable pursuant to the institutional vision.

### i. Country strategies and sector intervention frameworks

The country strategies will act as the instruments to tie the countries' priorities to those of the Institution. The design of the country strategies must guarantee flexibility and a capacity to adapt in conformity with any fundamental changes in the countries' circumstances during the implementation period. Additionally, the strategies must align with the Bank's institutional strategy, as well as being consistent and in line with government strategies, national development plans, the provisions of international development agreements and the assistance provided by other development organizations. To date, CABEI has eight intervention instruments on a country level<sup>40</sup>, which must be renewed under the strategic guidelines defined in the 2015-2019 period.

<sup>39</sup> Approved through Resolution No. DI-37/2012.

<sup>40</sup> CABEI has eight intervention instruments on a country level (five strategies for the founding member countries and strategic guidelines for the non-founding beneficiary countries). The approval dates of each document are different and therefore their culmination dates will happen in a gradual form.



**The frameworks for sector intervention will be the instruments for attending the focus areas contemplated in the CABEI 2015-2019 Institutional Strategy.** Currently, CABEI has a group of intervention instruments to attend specific sectors and initiatives in the beneficiary countries. To that end, an exercise was carried out to identify the individual relationship (according to degree of alignment) with the focus areas established in the 2010-2014 Institutional Strategy<sup>41</sup>. In this sense, the exercise must be updated in the light of the provisions established for the focus areas for the five year period from 2015 to 2019, so that their interrelationships and degrees of alignment can be duly proven or, alternatively, so that those that must be updated can be identified.

### **ii. Annual Operational Plan**

**The Annual Operational Plan (AOP) is the short term planning instrument for carrying out institutional activity.** The AOP defines the framework of institutional action for each year and, therefore its preparation must involve a series of projects based on institutional strategic objectives, the country strategies and the intervention frameworks, an analysis of the institutional context with regard to financial management (for its due alignment with the budget), project eligibility criteria and coordination with regional offices, among other fundamental aspects. This alignment must guarantee that the approvals satisfy the stipulated growth levels; their design must also contribute to reducing the gaps in the gross portfolio amounts among the member countries.

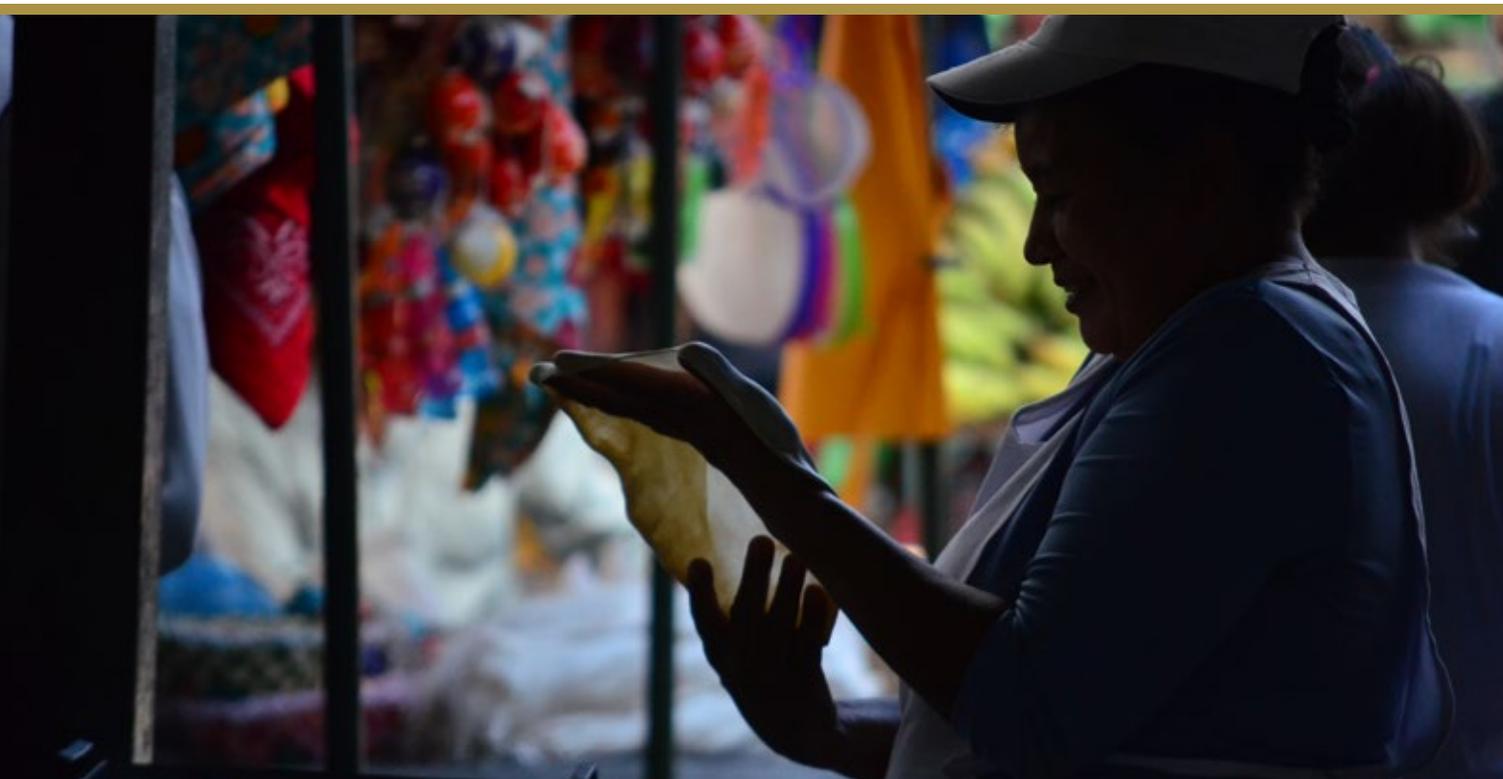
### **iii. Alignment with other development organizations**

**In addition to the level of alignment that exists among the instruments that serve to support the execution of the CABEI 2015-2019 Institutional Strategy, it is important to guarantee the harmonization and consistency of the strategy's objectives with respect to assistance provided by other development organizations.** In this sense, the plans proposed for this period, with regard to objectives, axes and intervention areas are relevant in the context of international cooperation in the region because they could serve as a basis for creating synergies and complementarities with development initiatives by other organizations.

**CABEI's institutional proposal will complement the efforts that other cooperation agencies are carrying out at the moment, specifically with respect to the objectives of social development, support for competitiveness and economic growth and regional integration.** To that end, the Bank may seek opportunities for collaboration and cooperation with other organizations in order to strengthen its contribution to the region's development in light of the definition of the focus areas, resource availability, institutional experience and international agreements, such as the Millennium Development Goals (MDG), the Paris Declaration and the Post-2015 Development Agenda- Sustainable Development Goals, among others. Basically, the Bank will act as an effective partner for development to the degree that it can contribute to the dissemination of knowledge; participate in and coordinate initiatives of multiple partners and develop a dynamic role in the raising and mobilization of resources together with other multilateral organizations.

<sup>41</sup> Approved through Resolution No. PRE-42/2013.

# IV. MONITORING AND EVALUATION (M&E)



**The CABEI 2015-2019 Institutional Strategy has a mechanism for monitoring and evaluation grounded in a management tool known as the Balanced Scorecard (BSC), whose objective is to measure institutional effectiveness in the framework of the Bank's contribution to its members' development.** In order to guarantee compliance with CABEI's strategic objectives and their alignment with the institutional mission and vision established for the 2015-2019 period, the Bank has established a series of strategic actions and initiatives that will act as guidelines and which are measured through specific indicators during the time period so that resources are affectively directed at the priorities of its member countries, which have been defined through the focus areas.

**The measurement of institutional performance will be tied with the mechanism for monitoring and evaluation in the CABEI 2015-2019 Institutional Strategy.** The processes of continuous improvement and optimization of the resources that the Bank provides required the creation of institutional capacities that take into account the limitations of available resources; by strengthening these institutional capacities, the Bank can guarantee the effective achievement of its strategy for the five-year period. In this sense, the goals proposed for the mechanism for monitoring and evaluation are aligned with the Bank's current capacity and presuppose efficient resource use.

**The monitoring and evaluation mechanism of the CABEI 2015-2019 Institutional Strategy includes indicators dedicated to measuring and monitoring the goals defined for the period.** In order to have an adequate evaluation mechanism, the CABEI 2015-2019 Institutional Strategy concentrates its strategic objectives on the perspectives proposed by the BSC (clients and beneficiaries, finances, structure and processes and organizational capacity) that measure the scope through indicators that evaluate the execution of planned goals, the expected yield, indicators that the resources invested contributed to development and institutional success (management indicators).

**The indicators defined for monitoring and evaluating institutional activity in the next five year period guarantee adequate measurement of the Bank's contribution to and impact on development.** CABEI indicators that measure its institutional activity target its fundamental purpose: guarantee that compliance with the actions that the Institution executes will ensure the Bank's contribution to and impact on development by strengthening the role of CABEI's different internal departments in order to achieve its institutional mission, as well as synergies with other regional development initiatives<sup>42</sup>.

<sup>42</sup> The Monitoring and Evaluation document of the CABEI 2015-2019 Institutional Strategy contains a breakdown of objectives, actions and strategic initiatives, as well as the indicators, calculation methodology, frequency and responsible parties.

# V. RISKS AND MITIGATING FACTORS



Pirris Hydroelectric Project, Costa Rica

**Like every strategic proposal, the CABEI 2015-2019 Institutional Strategy is made up of assumptions that can be influenced by situations outside of the Institution's control.** In general, every strategic proposal may be exposed to positive or negative effects that can impact the achievement of the planned goals or objectives. The CABEI 2015-2019 Institutional Strategy is not exempt from this reality, and its adequate performance can be affected by such aspects as institutional exposure to new international crises, its member countries' economic performance, especially in terms of debt sustainability and fiscal balances, political crises that can affect and delay program disbursements to the countries, as well as aspects related to the countries' execution capacity, which could affect the performance of planned approvals and disbursements, among others.

**In a global context of high volatility, CABEI has incorporated risk management as an integral part of its strategic processes.** CABEI has defined an Integral Risk Management Policy<sup>43</sup>, whose objective is to provide an integral risk management system, which permits the identification of the risk inherent in institutional activity and provides an adequate evaluation of their possible effects, suggesting corresponding actions to guarantee business continuity.

**In order to ensure adequate risk management, CABEI has a consistent organizational structure, which strictly follows the requirements of the institutional business model.** Strategic management for the five year period from 2015 to 2019 is founded on an organizational scheme that is appropriate for meeting current and future needs. In this context with regard to risk management, CABEI has a Risk Division dedicated to implementing an integral risk management system; a Credit Division that establishes credit parameters that are used for the Bank's operations pursuant to approved risk; a Compliance Office whose functions include the prevention of money laundering; and an Evaluation Office that is responsible for evaluating compliance with the Bank's strategies, projects and programs in accordance with the principles, objectives and norms that govern the Institution. It is important to underline that these different CABEI divisions and offices permit the Institution to guarantee its own business continuity and the implementation of optimum measures, as well as consolidating its position of relevance as a strategic ally to the region.

<sup>43</sup> Approved through Resolution No. DI-31/2012.

# ABBREVIATIONS, SYMBOLS AND ACRONYMS

AG	Board of Governors Resolution
AGOB	Board of Governors Agreement
AOP	Annual Operational Plan
BSC	Balanced Scorecard
CABEI	Central American Bank for Economic Integration
DI	Document approved by the Board of Directors
ECLAC	Economic Commission for Latin America and the Caribbean
ESCA	Central American Security Strategy
EXIMBANK	Export-Import Bank.
FETS	Special Fund for the Social Transformation of Central America
GDP	Gross Internal Product
I-CABEI	CABEI Development Impact Index
IMF	International Monetary Fund
km	Kilometer
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MER	Regional Electricity Market
MSME	Micro, small and medium enterprise
MTN	Medium Term Notes
ODA	Official Development Assistance
OPEP	Strategic Planning and Programming Office
PPA	Public private Association
PRE	Executive President's Office
RICAM	International Network of Mesoamerican Highways
SIEPAC	Central American Electrical Interconnection System
SIF	Institutional Strategy Framework
SIG	Integrated Management System
U.S.	United States of America
US\$	US dollars
WEO	World Economic Outlook





**CABEI**

Central American Bank  
for Economic Integration

# **CABEI 2015-2019 INSTITUTIONAL STRATEGY**

**INTEGRATING SUSTAINABLE  
DEVELOPMENT AND COMPETITIVENESS**

