

# CABEI



Central American  
Bank for  
Economic  
Integration



# CABEI's 2020 2024

INSTITUTIONAL  
**STRATEGY**

THE REGION'S SUSTAINABLE  
DEVELOPMENT PILLAR

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# CABEI'S 2020-2024 INSTITUTIONAL STRATEGY

Sixty years from its creation, the Central American Bank for Economic Integration (CABEI) continues evolving and modernizing itself in order to strengthen its position as reference for the Central American region's development and economic integration. During the last thirty years, the Bank has carried out a number of reforms to respond to the changing demands of the region and of the international context.

In recent years, important steps have been taken to increase the Bank's relevance in the region, to act in a more decisive way on the issues of poverty and the environment, and, above all, to resume the integrationist vision that gave life to our Institution and which has been the permanent element of its actions for six decades as of now.

Despite the efforts made, we must recognize that there is a lot more to be done. We have restrictions that prevent us from moving faster and deeper, even though the Bank is precisely the multilateral institution that provides the most financing to the Central American countries. Efforts to expand our institution's capital will become a reality in the medium term and the need to implement an agenda of relevant integration and development projects is urgent and of high priority. During the coming year, the Bank will have to face this challenge and increase its financial capabilities.

In view of these challenges, CABEI proposes to its members to advance with structural reforms that give the Bank possibilities to consolidate itself as the region's development bank that brings it closer and closer to decisively fulfilling the objective of its creation of promoting the balanced economic integration and development of our countries. This strategic plan is pointing in this direction and seeks to clearly identify the institutional and strategic changes that the Institution requires in the current context.

Along with the reforms, the Institution intends to advance in the mission, vision, and objectives with an agenda of policies, programs, partnerships and regulatory changes that will allow the Institution to adapt to the demands of a regional vision with an integrationist seal, to reach new sources of funding, and to regionally open itself in order to lead a change in the region that is supported by innovation, not only technological but also of the processes that result from it.

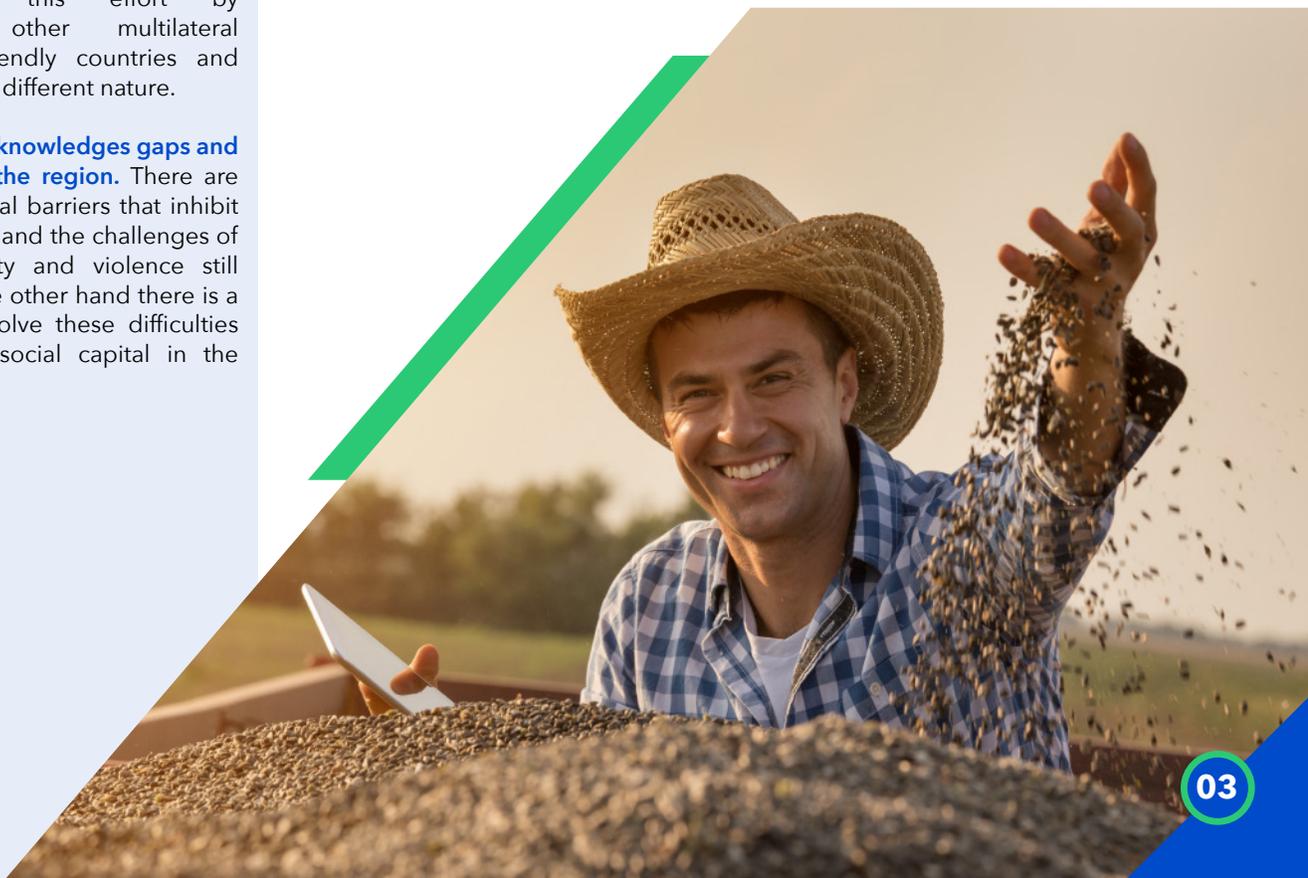
The risks of the global economy and regional challenges are a reality, but the Bank is now in a better position to overcome such, as long as its actions seek partnerships with other multilateral agencies, with countries interested in the region and with other organizations working with the same objective of improving the standard of living of the most vulnerable population.

The Central American Bank for Economic Integration (CABEI) submits its 2020-2024 Institutional Strategy and informs the international community, particularly the Central American people, about the Bank's opportunities of growth to boost the economies in the countries of the region, its commitment of strengthening the social impact of its operations and its interest in looking for new spaces of collaboration with the rest of the world.

**Dr. Dante Mossi**  
Executive President  
**Central American Bank for Economic Integration (CABEI)**

# RESUMEN EJECUTIVO

- **1. Financial Strategy 2020 - 2024. In the framework of its vision and mission, CABEI** has defined the path for contributing with greater efficiency to the major objectives that define the essenced development, integration, balanced development, poverty and inequality reduction as its ultimate purpose.
- **2. CABEI's 2020 - 2024 Institutional Strategy** gathers the experiences of the Bank's sixty years of work, the global economic and geopolitical context it faces, and the institutional challenges confronted in itself and that demand reforms.
- **3. The Strategy is the guide that the Bank** must follow in order to accompany the Central American countries in their efforts to achieve new phases of economic development and better opportunities for well-being. It is also the portal for the international community to identify its possibilities more clearly for action in the region and the added value that the Bank represents in this effort by accompanying other multilateral organizations, friendly countries and organizations of a different nature.
- **4. The strategy acknowledges gaps and the potential of the region.** There are still many structural barriers that inhibit economic growth and the challenges of poverty, inequality and violence still persist, but on the other hand there is a political will to solve these difficulties and a valuable social capital in the region.
- **5. Intra regional migration** is a problem faced in all the countries of the region due to a number of reasons; therefore, it is considered convenient to design schemes to help mitigate the causes of this displacement of people from their home areas and to promote the insertion of migrants into the economies of the recipient countries with a view to promoting sustainable development and to increasing regional productivity.
- **6. Sixty years of CABEI's history** is a wealth of tremendous value in terms of knowledge and experiences towards building a vision of the future for the region and to join the countries in their efforts of accomplishing a more inclusive economic and social development. This wealth of information is available to the governments and their institutions and represents a valuable resource when shaping their own country strategies.
- **7. As of 2020, CABEI** must take a more relevant role in achieving the major regional objectives and go beyond financing infrastructure projects. It must act on structural change solutions that improve competitiveness of the Central American economies and on providing better financial conditions to its member countries in order to achieve the latter. The Bank must become a more accessible instrument of the Central American countries to the financial markets by taking advantage of the opportunities in these markets. The institution should promote initiatives that foster technological change, innovation and creativity as essential sources of development when creating higher added-value activities.





**CABEI's mission** in the 2020-2024 Institutional Strategy is to promote the economic integration and the balanced economic and social development of the Central American region, which includes the founding regional countries as well as the non-founding regional ones, and in harmony with the objectives in regard to its non-regional members.

**The vision** is to become the sustainable development and economic integration reference of the region, and to effectively impact in the well-being of the society.

**The strategic purpose** is to support the governance actions of the member countries by financing high-impact regional integration projects at the lowest possible financial costs, which requires the effort and commitment of maintaining and even, if possible, raising the institution's credit rating.

## 2020-2024 Strategic Framework

### 8. Within the strategic vision framework, the Bank poses four major challenges for the five-year period:

**a. Strengthen its governance.** The Bank must optimize its institutional governance within its decision-making and management processes, and must assume transparency, austerity and accountability as essential elements in the Institution. Likewise, it must consolidate the culture of adequately measuring the impact on development as a key aspect in the decision-making process of the projects to be financed.

**b. Achieve greater economic and social incidence in its actions.** Prioritize the Bank's areas of action in terms of financing and achieve greater efficiency in terms of formulation, management and impact of the projects.

**c. Propitiate regional integration effectivity.** Preferably finance regional initiatives with high impact in two or more countries.

**d. Consolidate and strengthen its financial capacity and transfer benefits to the countries.** Increase funding and take advantage of economic market situations in order to capture funds with better conditions in regard to cost and terms, shifting benefits to the countries.

## Acciones

**9. CABEI's Visibility.** Despite its great contribution to the region, the Bank is little known in the world and even in its member countries. The Institution must take a more active role in showing the impact of its actions for the well-being of the societies that are part of the region as well as in the role that it could play to boost their resources and opportunities for other stakeholders in the area.

**10. A regional vision.** CABEI seeks to position the region in the world highlighting the nature of its market with similar economic characteristics and potentials. This will make it easier for the international community to understand, size and decide on its interaction with the region with a broader perspective.

**11. Promote initiatives to improve sustainable competitiveness.** CABEI is committed to promote a regional competitiveness agenda, understood as the broad set of economic, social and institutional elements that promote balanced and inclusive development. This vision goes beyond national approaches and weighs capacities and complementarities so that it translates into an on-site development not only in the most extensive use of resources, but also in the best use of these resources, and in increasing productivity and technological innovation as central elements. In this context, regional competitiveness is considered a shared benefit for all.

## Axes of the Strategy

**12. The Bank has defined five axes and six objectives for the implementation of the 2020-2024 strategy:**

**a. Sustainable Competitiveness Axis**, which seeks to intervene in strengthening the economic, social and institutional factors that determine regional competitiveness.

**b. Regional Integration Axis**, through regional initiatives in specific sectors, of financing and promoting the region as an integrated market.

**c. Human Development and Social Inclusion Axis**, which generates social capacities that lead to achieving the objective of improving the well-being and the quality of life of the Central American region.

**d. Environmental and Social Sustainability Transversal Axis**, through the approval of programs and projects in favor of social appropriation and that address the need to preserve the environment.

**e. Gender Equality Transversal Axis**, through programs and projects that favor equal opportunities and the economic and social conditions in the population.

## Objectives of the strategy

**a. Contribute to an inclusive economic growth** and support countries in their economic policies.

**b. Support efforts** to reduce poverty and inequality and, in a focused manner, contribute to significantly reducing extreme poverty.

**c. Promote integration** beyond the commercial scope and develop regional capacities that provide the region with better opportunities to compete in the global markets.

**d. Strengthen the Bank's governance and institutionality.**

**e. Consolidate CABEI's financial position** and its gradual and sustainable growth.

**f. Strengthen mechanisms for measuring and assessing the impact on development.**

## Financial Strategy

**13. The Bank intends to achieve a sustained growth of financial resources that is consistent with the demands of its institutional strategy.** Consolidate its presence in the capital markets and introduce itself in new markets and instruments when they offer better funding conditions. Implement a long-term capitalization policy and the gradual and convenient incorporation of new members. The implementation of alliances with multilateral organizations, international cooperation agencies and entities that provide funds for specific objectives and in line with the institutional strategy.

**14. The Bank contemplates a resource Allocation Policy based on strategies defined by the countries and their set priorities, so that the allocation of resources aligns with the Bank's strategy.** An important element of this strategy is portfolio diversification.

**15. Financial programming** considers the eighth general capital increase - currently underway - that will increase the authorized capital in \$2 million and in the programs of capital payment of new members. Portfolio will grow during the five-year period at an average annual rate of 8%. At this rate of growth, during the five-year period 2020-2024, the credit capacity of the Bank will be 45% higher than the previous five-year period.

## Monitoring and Evaluation

**16. Monitoring the implementation of the strategy will be carried out through the Matrix of Corporate Results (MRC) with the corresponding indicators and these indicators will be incorporated into other systems to measure institutional performance and operational processes.**





# I. SITUATION AND PERSPECTIVES OF THE ECONOMIC CONTEXT OF THE REGION

**1. The global economy will continue growing at rates greater than 3.0% between 2020-2024.** This is the result of the positive perspectives of emerging economies, such as China and India, whose growth rates are foreseen above 4.5%. The increase in economic growth of the emerging economies, will more than compensate for the slowdown in advanced economies. In addition, a slowdown of the U.S. economic growth is expected of less than 2.0%, mainly due to the uncertainty of its trade policy and aspects related to the recent prospects of reaching possible agreements with its closest partners. In this sense, the world's trade will grow in volume during this period at an average rate of 3.5%, less than the 4.5% average presented between 2010-2019. To conclude, the advanced economies have presented an expansive monetary policy, in which the United States and the European Union are highlighted. The U.S. federal reserve rose from a range of 2.25% - 2.00% to 1.75% - 1.50% and the European Union reduced its rate to around -0.50%; both in order to stimulate the demand and the labor market; this decision is expected to be maintained in the medium term, improving the outlook for global economic growth.

**2. The Central American region's outlook foresees that its macroeconomic stability will be maintained.** For 2020 it is projected that the Gross Domestic Product (GDP) will grow 3.8% above the projected rate for Latin America of 1.8%. It is expected that the region will maintain its growth dynamic during 2021. Overall, the

region has demonstrated price stability, 3.1% of inflation in 2019, leading countries to maintain predictable monetary policies. In this sense, the countries have inflation targeting schemes, seeking to provide stability to their monetary policy rates.

**3. The international context presents a number of risks for the region.** Although projected global inflation for the period 2020-2024 is low and stable, the result of a slight rise in inflation in advanced economies offset by lower inflation in developing economies, the volatility of oil prices presents challenges to macroeconomic stability for importing countries since by being an exogenous shock to inputs, it moves the entire economy, and potentially pressures the current account and fiscal balance. On the other hand, the possible slowdown in the economy of the United States of America may imply a lower demand for the region's export products. Likewise, economic performance can be influenced by changes in the prices of the main export goods in the region. In this sense, by 2021 coffee is expected to reach a cost close to US\$150 cents/lbs and for sugar US\$14 cents/lbs, both being far from their levels reached at the beginning of the previous decade, US\$275 cents/lbs and US\$26 cents/lbs, respectively. For its part, the projection for bananas is expected to stabilize at a level close to US\$1,200.0 per metric ton. Finally, estimates for the year 2020 and 2021 indicate that the price of oil will remain in the range of US\$50-US\$60 per barrel.

**4. The integration agenda is relevant to boost the market opportunities proposed by the Central American region<sup>1</sup>.** With an added GDP close to US\$350.0 billion<sup>2</sup>, and with a population of 60 million people, the region, in an added manner, holds the 4th position among the Latin American economies (2018)<sup>3</sup>. In regional terms, the average GDP per capita in 2018 was US\$6,025.0; economic growth was 3.5% in the 2014-2018 period, with which the region has surpassed the global economic growth (2.9%) and the growth of Latin America (1%). During this period, the per capita income of Central America rose to an annual average of 2.6%, also above the global average (1.7%) and of Latin America (-0.2%). Inflation levels on their part were relatively stable and one figure digits (3.8% annual average during the 2009- 2019 period).

1. Belize, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic.

2. Nominal Dollars of the United States of America.

3. One of the most relevant dimensions is trade one, in which the region concentrates 65% of its transactions in two markets: United States (42.0%) and Central America itself (23.0%). Intraregional trade is similar to the block of countries of the Association of the Southeast National (ASEAN), but below the European Union (UE), 63.0%, and is concentrated in goods of relatively low added value.

The external sector on its part, was benefited by the remittances that were in average around 10.0% of the GDP, representing more than half of the total exports of goods and services. In regard to the fiscal side, debt management has been carried out with sustainable paths (43.1%oftheGDP)<sup>4</sup>, even though there are still internal and external challenges in this matter.

(Figure 1) Geographical Zone of the Central American region by CABEI's Definition



**5. Strengthening the economic growth and competitiveness agenda is of vital importance to converging to the current level of Latin America's per capital income.** Considering the growth reached by the GDP per capita during the last fifteen years (2.5% annual average), the region would require three decades to solve this gap. Countries such as Panama, Costa Rica and the Dominican Republic overall register an average income of US\$9,201.9, while Belize, El Salvador, Guatemala, Honduras, and Nicaragua register lower levels. Within this context, it is important to create a more complex business canvas in order to raise competitiveness, productivity and added value of the economies<sup>5</sup>. According to the economic census, more than 60.0% of all companies are engaged in activities of traditional services, such as wholesale and retail commerce, accommodations and food service, social assistance, among others. On the other hand, investment on research and development and infrastructure is low when compared to other regions, since it invests less than 0.2% of the GDP on research compared with countries such as Mexico and Chile, which invest 1.0% of their GDP, or the Republic of Korea that invests 3.0% of its GDP. The creation of technological capacities is a fundamental part for productive

transformation that could promote development. Furthermore, investment on infrastructure is approximately 2.9% of the GDP, a situation that contrasts with the 4.0% invested in industrialized economies (Australia, Canada, Republic of Korea or New Zealand, among others) and is slightly above the average of Latin America (2.4% of the GDP)<sup>6</sup>.

**6. An agenda that accelerates human development and social inclusion is required, which at the same time enforces long-term environmental and social sustainability.** Even though a higher growth rate than the rest of Latin America has been experienced, Central America has not been able to converge at the level of its Latin American peers in terms of income, nor has it overcome the persistent economic, social and environmental challenges, such as extreme poverty, inequality, insecurity and adverse environmental events, which arise more intensely due to climate change effects. The Central American region shows countries with poverty levels of 15.0% up to 17.0% and countries with over 50.0% of poverty levels. Also, according to the Climate Risk Index, the countries of the region are among the top 10 territories considered most vulnerable to climate change, while managing risk for natural disasters still needs to be strengthened.

**7. Intraregional migration is also part of the aforementioned social challenges, a problem that is confronted by all the countries of the region for a variety of reasons.** It is therefore considered convenient to design schemes to mitigate the causes of displacement of people from their areas of origin and promote migrant insertion into the economies of the recipient countries with a view to promoting sustainable development and increasing regional productivity.

4. Based on the debt sustainability assessment prepared by CABEI.

5. Close to 93.0% of the companies in the region have less than ten employees, the remaining 7.0% are divided in medium and large companies.

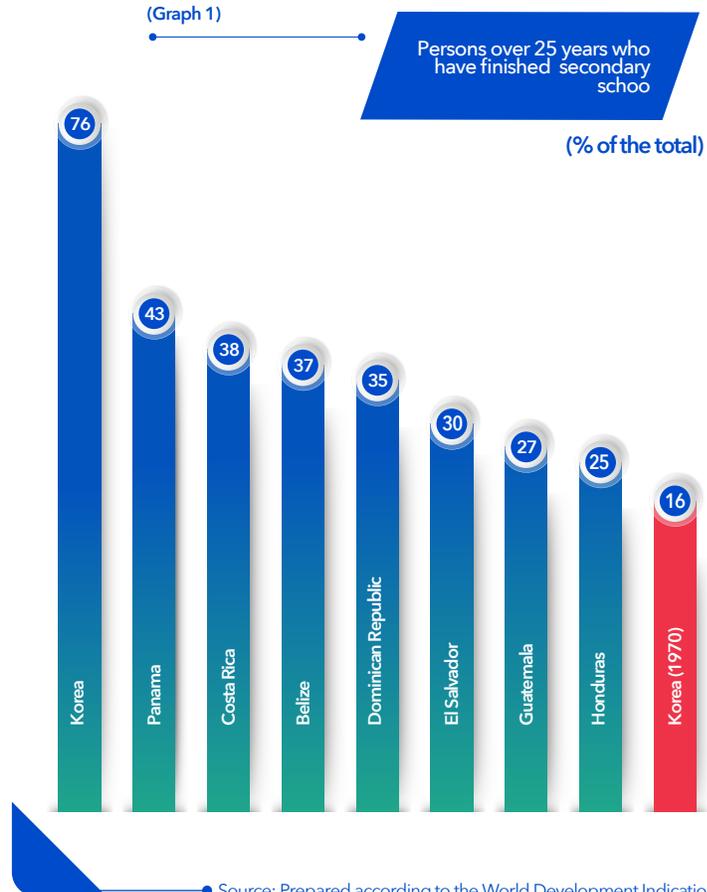
6. Serebrisky, T., Suárez-Alemán, A., Margot, D., Ramírez, M (2015). Financing Infrastructure in Latin America and the Caribbean. How? When? And How Much? - Inter American Development Bank. Washington DC, EE. UU.

**8. It is important to combine public policies and sound financing to take care of the foundation of the pyramid through an agenda of human development and social inclusion.** Such policies must strengthen competitiveness for productivity, innovation and investment conditions, taking advantage of the regional scale that allows integration, hand in hand with environmental and social sustainability; including the reduction of inequities, in particular gender related, which is the current face of the need of an inclusive development. In order to reinforce the previously mentioned facts, it is also convenient to add key elements, such as the low access to funding that affects the capacity of growth, innovation and productivity improvements of the companies. Domestic loans to the private sector represent an average of 50.0% of the GDP, figure that is lower than the one registered in the OECD countries<sup>7</sup> (145.0% of the GDP). Another element is the labor market, characterized by a predominant concentration of jobs in the informal sector, which holds a 50.0% or more of the total workers, a more severe phenomenon in the rural area. In addition, informality predominates in the women's labor market, which registers indexes of 10.0 to 17.0 percentage points above the one for men.

**9. Violence and insecurity have been decreasing in Central America, however, doubling efforts in this area is a priority in order to strengthen investment and economic growth.** Violence and uncertainty generate limitations to promote domestic investment, attract foreign investments and displaces citizens that are more vulnerable from certain countries to migrate to other countries seeking security and better income. This reduces the population's opportunities for a better income under legal terms and generates enormous incentives particularly for young people to get involved in gangs, in which the immediate economic retribution is very significant. It has been observed that intentional homicides for each 100,000 people have decreased in the countries of the northern triangle of Central America; in Honduras, for example, from a maximum of 85 it decreased to 42, almost half of 2017, and in El Salvador, they decreased from a maximum of 105 in 2015 to 62 in 2017. It is clear that violence and insecurity must continue decreasing, since they impose high economic and social costs. For example, in El Salvador security costs represent close to 3.5 percent of the annual sales of the companies, and there is evidence that crime and extortion force the companies to close. High risks and costs associated to insecurity damage the business climate and reduce the companies' profitability, which at the same time reduces productivity and therefore economic growth as well.

**10. The demographic bond and urbanization process present opportunities<sup>8</sup>** The combination of a young population with an average age of 26, and a low rate of residents in the urban area of 65.0% (75.0% in Latin America), presents opportunities for increasing economic growth and the labor market, which will result in improvements in well-being and in migration<sup>9</sup> reduction. A public agenda for the education and health sectors would be of high impact, promoting reforms at the same time for a competitive and exible labor market, which takes advantage of the opportunity of the demographic bond. This improvement of human capital (Graph No. 1) would facilitate the increase of productivity and the generation of a specialized labor force for a greater added value, both assets together offer important incentives to dynamize the investment conditions.

(Graph 1)



7. Organization for Economic and Cooperation Development.

8. The region is under the category of countries with an average human development, with indicators of schooling in which the average is 7.6 years of education, as per the Index of Human Development, while life expectancy at birth is 75.6 years, in average. It should be noted that indicators for Panama, Costa Rica, the Dominican Republic and Belize are classified as countries with a high human development. As with other statistics, it should be taken into consideration the heterogeneity among the region when designing and implementing programs with social or economic objectives.

9. Central American Commission for the Environment and Development. 2015 - 2020 Environmental Regional Strategy. December 2014.

**11. The region is rich in culture and natural resources that propose development opportunities.** Regardless of the challenges confronted for its preservation, Central America has one of the richest and more diverse cultural heritage worldwide, highlighting the greatness of the pre-Columbian cultures and their viceroyalty past. It also has 8.0% of the world's biodiversity distributed in 206 ecosystems, 33 ecoregions and 20 living areas. It owns close to 12% of the Latin American and Caribbean coasts, including mangroves and coral reefs . In terms of conservation, during the first fifteen years of this century, the forest area of the region was reduced 9.8%, rate that is higher than the one experienced by the average Latin American country (5.5%) and of the world (1.8%)<sup>10</sup>

On the other hand, the region continues being one of the most vulnerable to adverse climate events, such as earthquakes, droughts and floods, accounting for 131 events that directly impacted more than 11.5 million people and provoked 2,038 deaths<sup>11</sup> during the period of 2007 to 2016. This reality presents an opportunity that may lead the region to moving towards a sustainable development model.

**12. The integration and development agenda must include comprehensive and regionally converging public policies.** In this context, these must raise the quality and quantity of years of education that current and future generations receive, strengthen the health, water and sanitation system and reduce housing deficit. This leads to increasing investment on productive and social infrastructure; as well as to diversifying its energy matrix, increasing the capacity of regional energy transmission, promoting energy efficiency, and promoting innovative programs, such as electric energy use in transportation in order to reduce the use of fossil fuels. To this end, in some countries CABEI's financial resources represent more than 50% of its external financing, including other multilateral sources. On the other hand, governments must consolidate their fiscal sustainability in harmony with the needs for investment and social expenditure, required for closing structural gaps. Concurrent and articulated participation of the public and private sectors is essential to achieve greater levels of economic and social development, becoming the different existing modalities increasingly relevant<sup>12</sup>. At the same time, violence and insecurity reduction is key, as well as raising the degree of efficiency of public institutions in order to take care of the citizens' demands, including migration causes; as well as the companies' demands to develop their businesses.

10. Own estimates on the basis of forest coverage statistics of the UN-ODS, compiled by the State of the Region 2018.

11. Per data from the Research Center on Disasters Epidemic, gathered by the Region's State 2018.

12. APP considered as a progress mechanism that improve the situation of individuals, communities, institutions, enabling the economy diversification and contributing with knowledge and technology.



## II.



## CABEI'S STRATEGIC PLANNING

### 2.1. Background, Accomplishments and Challenges

#### 60 YEARS PROMOTING THE REGION'S DEVELOPMENT

**13. CABEI has arrived to its 60th anniversary and great contributions to the Central American economies are visible throughout its history.** Over time, the Institution has been strengthened by going through a diversity of paths in search of its own identity as a development bank and after several corporate reforms, today it is shaping up with better opportunities to accomplish it, as it is defined by the legal mandate of its Constitutive Agreement. By 2020, the Bank has positioned itself with important leadership from a financial perspective; its contribution to the regional development is internationally recognized as well.

#### CABEI AND ITS TRAJECTORY FOR 60 YEARS

Since its foundation until 2019, CABEI has approved US\$38,057.1 million distributed as follows: Costa Rica 23.8%, Guatemala 18.6%, El Salvador 18.4%, Nicaragua 14.8%, Honduras 14.8%, Panama 4.9%, Dominican Republic 2.0% its foundation until 2019, CABEI has approved US\$38,057.1 million distributed as follows: Costa Rica 23.8%, Guatemala 18.6%, El Salvador 18.4%, Nicaragua 14.8%, Honduras 14.8%, Panama 4.9%, Dominican Republic 2.0%, Colombia 1.5%, Argentina 0.7%, Mexico 0.4% and Belize 0.1%.

Similarly, CABEI has historically disbursed in 2019, US\$30,179.7 million, of which 57.2% has been oriented to the public sector and 42.8% to the private sector. The Bank's presence in the region has been extremely important to support economic progress, social development and regional cooperation in the framework of Central American integration, to the point that around 50% of the disbursements of the Multilateral Development Banks (BMD) for the region come from CABEI.

In response to its purpose, the Institution has focused its efforts on the development of key sectors that allow economic, social and environmental development, among them the area of energy targeting, in which loans for projects have been approved for a total of US\$6,315.2 million representing 16.6% of the total amount approved. In the energy sector total approvals in the last 10 years translate into 3,579.5 MW, equivalent to 16.1% of the total installed capacity in the member countries of the Central American Integration System (SICA), allowing them to benefit more than 5.4 million subscribers in the region.

Likewise, it has also impacted on the following sectors: Human Development and Social Infrastructure, US\$6,141.5 million (16.1%); Rural Development and Environment, US\$1,911.7 million (5.0%); Productive Infrastructure, US\$12,175.4 million (32.0%); Financial Intermediation and Finances for Development, US\$7,846.1 million (20.6%) and Services for Competitiveness, US\$3,667.2 million (9.7%).

## RESULTS OF THE 2015-2019 INSTITUTIONAL STRATEGY

14. During the last five-year period, the results have been measured in the framework of the 2015-2019 Institutional Strategy, which are shown below:

15. CABEI made significant progress in its role as a strategic ally. The loan portfolio experienced a growth of 35.8% during the period, reaching US\$7,759.1 million, strengthening the diversification process in countries with less exposure, going from 5.6% to 16.0% of the portfolio in non-founding countries, in accordance with the 2015-2019 institutional strategy. The development interventions approved at the end of 2019 are estimated at US\$10,681.3 million, exceeding by 21.9% what was programmed for the five-year period (US\$8,765.0 million), of which 73.9% corresponds to the five founding countries and 26.1% to the rest from partner countries. Likewise, CABEI prioritized the net flow of resources to the public sector of the founding countries, which will amount to US\$1,441.5 million during the five-year period. Progressively, the Bank increased the impact on development in the initiatives formulated and approved, which was reflected in greater rigor in the results measured by the I-CABEI evaluation in the approval of projects and global lines of credit, going from an average I-CABEI of 75% in 2015 to an average result of 82.0% in 2019, which resulted in an expected impact greater than that required in each focus area. In terms of integration, we have sought to advance in the approval of projects with regional significance, among which the approval of the credit for the Second Circuit of the Electric Interconnection System for the Countries of Central

America (SIEPAC) stands out, strengthening the role of the Institution as a strategic ally for integration.

16. Figure No. 2 summarizes the relevant expected benefits (I-CABEI) through projects and global lines of credit approved by CABEI during the 2015- 2019.

17. Even though the level of approvals was higher than the one foreseen in the 2015-2019 Strategy, the disbursements level was inferior to the one projected and the annual average growth of the portfolio was close to the estimated inferior range. Disbursements reached US\$8,358.0 million, 9.9% less than projected, deriving in a net Flow of US\$2,032.7 million and an average annual portfolio growth of 6.3%, lower than the foreseen growth in the Institutional Strategy, within a context in which CABEI has been adjusting its operational planning to guarantee a sustainable growth. The portfolio distribution is over 94.4% in the five founding countries and 5.6% in the rest of the member countries for the five-year period to a projected distribution for 2019 of 84.0% and 6.0%, respectively.

18. CABEI has raised its financial and net worth position. CABEI reached the best risk of Latin America with ratings of AA and Aa3 assigned by the risk rating agencies<sup>13</sup>, registering six upgrades, or improvements, since 2015. Among the factors that contributed to the rating upgrade are the incorporation of new members of the institutional structure (the Republic of Korea in 2019, the Republic of Cuba in 2018 and Belize<sup>14</sup> in 2016),

(Figure 2)

Indicators of products and expected results of CABEI's 2015-2019 interventions



**1,576**  
Kilometers of Highway built, improved and rehabilitated.



**298,000**  
Construction of educational area (m<sup>2</sup>)



**366,860**  
Beneficiary higher-learning students.



**6,486**  
MSMEs benefited with access to credits with preferential rates.



**112,623**  
Construction and renovation of health care area (m<sup>2</sup>).



**29,130**  
Construction and rehabilitation of docks (m<sup>2</sup>).



**411**  
Km of distribution and irrigation channels built and improved for irrigation



**46,416**  
Area under irrigation (hectares).



**1,686,735**  
Persons benefitted with potable water.

Source: Preparation based on I-CABEI ex ante matrix.

Tabla 1

SUMMARY OF 2015-2019 OPERATIONS (millones de US\$)

Concept	Programmed	Executed*	Absolute difference	Relative Difference (%)
Approvals	8,765.0	10,681.3	1,916.3	21.9
Disbursements	9,281.0	8,358.0	-923.0	-9.9
Recoveries	6,398.0	6,325.3	-72.7	-1.1
Net Flow	1,968.5 - 3,488.0a/	2,032.7a/	Inside the range	
Portfolio	7,681.7 - 9,201.2b/	7,759.1b/	Inside the range	
Average portfolio growth	6.1% - 10.0%c/	6.3%c/	Inside the range	

Source: Programming Office and Special Programs.

13. AA rating given by Standard & Poor's.

14. Since 2005, Belize has been a non-founding beneficiary country. In 2016 it acquired the status of a non-founding regional partner.

\* Projected figures as of December 2019, form approved figures in the 2019 revised AOP. a/, b/, c/ Within range.

allowing an annual average increase of the capital of 7.8%. In addition, the annual average growth of the portfolio has been 6.3%, and income generation of US\$150.0 million per year in average since 2015; surpassing the established goals in the annual operational plans, except for 2018.

**19. However, the Bank confronts structural problems, vision and strategic definition problems, as well as of operational tightness, which hinder it from consolidating itself as a development bank.** Facing this situation, CABEI begins its 2020-2024 strategy with a path of transformation that will enhance the capacity of the Institution and contribute with greater impact in the projection of the Central American region towards new stages of economic growth and human development. Following is the 2020-2024 strategy.

## 2.2. 2020-2024 Strategic Framework

**20. CABEI's mission in the 2020-2024 Institutional Strategy** is to promote the economic integration and the balanced economic and social development of the Central American region, which includes the founding regional countries as well as the non-founding regional ones, and in harmony with the objectives in regard to its non-regional members. The vision is to become the sustainable development and economic integration reference of the region, and to effectively impact in the well-being of the society. The strategic purpose is to support the governance actions of the member countries by financing high-impact regional integration projects at the lowest possible financial costs, which requires the effort and commitment of maintaining and even, if possible, raising the institution's credit rating<sup>5</sup>

**21. In the framework of the strategic vision, the Bank proposes for the five-year period, four major challenges:**

a. Strengthen its institutionality. The Bank must optimize its institutional governance within its decision-making and management processes, and must assume transparency, austerity and accountability as essential elements in the Institution. Likewise, it must consolidate the culture of adequately measuring the impact on development as a key aspect in the decision-making process of the projects to be financed. Increase the institutional capacities through ongoing innovation and technological adequacy.

b. Achieve greater economic and social incidence in its actions. Prioritize the Bank's areas of action in terms of financing and achieve greater efficiency in terms of formulation, management and impact of the projects.

c. Propitiate regional integration effectively. Preferably finance regional initiatives with high impact in two or more countries.

d. Consolidate and strengthen its financial capacity and transfer benefits to the countries. Increase funding and take advantage of economic market situations in order to capture funds with better conditions in regard to cost and terms, shifting benefits to the countries.

## Actions

**22. CABEI's Visibility.** Despite its great contribution to the region, the Bank is little known in the world and even in its member countries. The Institution must take a more active role in showing the impact of its actions for the well-being of the societies that are part of the region as well as in the role that it could play in order to boost their resources and opportunities for other stakeholders in the area.

**23. A regional vision.** CABEI seeks to position the region in the world highlighting the nature of its market with similar economic characteristics and potentials. This will make it easier for the international community to understand, size and decide on its interaction with the region with a broader perspective.

**24. Promote initiatives to improve sustainable competitiveness.** CABEI is committed to promoting a regional competitiveness agenda, understood as the broad set of economic, social and institutional elements that promote balanced and inclusive development. This vision goes beyond national approaches and weighs capacities and complementarities so that it translates into an on-site development not only in the most extensive use of resources, but also in the best of these resources, and in increasing productivity and technological innovation as central elements. In this context, regional competitiveness is conceived as a shared benefit for all. Below are some of the initiatives:

15. Always observing for the financial health situation of all its partners.

**a. Energy Diversification:** Energy diversification and the modernization of this sector is a regional priority where CABEI can contribute in order to improve efficiency and cost reduction. The Bank considers that spaces to propose an energy strategy must be generated, which include the diversification of energy sources to transition to a more favorable matrix for the region, this includes contributing to reconverting the generation, transmission and administration model of this sector.

**b. Transportation Modernization:** Central America has been progressing towards reducing oil dependency in electric energy generation, but this is not so for the transportation service. Strategically, the Bank will promote a transportation vision with initiatives that incorporate regional connectivity with investments on railway transportation and will incite modernization of collective transportation with electric units reducing fuel consumption and carbon emissions in favor of the environment.

**c. Improving efficiency of the human capital:** Investing in health and education boosts human capacities in favor of its workforce productivity. The Bank contemplates guidelines in its 2020-2024 institutional strategy that will allow implementing a hospitality and education infrastructure that will improve in the medium and long term, the human capital of the region.

**d. Accompanying the different member countries** in designing and implementing actions that mitigate the reasons for forced displacement of people and that promote the insertion of migrants into the regional economies.

**e. Boosting technological change:** The Bank includes in its strategy the vision of technological changes in order to boost economic performance. Being CABEI an international organization allows it to visualize this technological change in the region having the latest technology offered by the industrialized world, even from some member countries of CABEI, such as Korea and The Republic of China Taiwan.

**f. Towards a better position regarding nancial cost:** Improving the cost of the Bank's financial portfolio is a development objective that CABEI proposes in the medium and long term. In part, this is possible if a transition is made from the traditional capital markets to more competitive ones that only institutions with the highest credit risk confidence can reach. Consequently, with this objective, CABEI will work towards carrying out the necessary transformation within the Institution in order to accomplish a AAA certification by the risk rating agencies.

## 2.3. Organization and methodology for the strategy's implementation

**25. The Bank has defined five strategic axes to facilitate and manage the 2020-2024 institutional strategy, that allow guiding interventions with greater emphasis.** These strategic axes define the priority sector space that the strategy must emphasize during the next five-year period, based on the previously mentioned framework. Likewise, the strategic axes open spaces for incorporating transversal scopes such as gender, and environmental and social sustainability. The referred strategic axes are detailed below:



# STRATEGIC AXES

CROSS-CUTTING AXIS

CROSS-CUTTING AXIS



## ENVIRONMENTAL AND SOCIAL SUSTAINABILITY:

Through the approval of programs and projects that favor social appropriation and address the need to preserve the environment.



## SUSTAINABLE COMPETITIVENESS:

Seeks to intervene in the strengthening of economic, social and institutional factors that determine regional competitiveness.



## REGIONAL INTEGRATION

By means of regional initiatives in specific sectors, financing and promoting the region as an integrated market.



## HUMAN DEVELOPMENT AND SOCIAL INCLUSION

Generates social capacities that lead to achieving the objective of improving the well-being and quality of life of the Central American region.



## GENDER EQUALITY:

Through programs and projects that favor equal opportunities and economic and social conditions in the population.

# STRATEGIC OBJECTIVES

## 26. Contribute to an inclusive economic growth and support countries in their economic policies.

a. CABEL will improve its institutional capacities of analysis and diagnosis, as well as its formulation and design of new financial instruments that can accompany the discussion of relevant public policies for the countries that contribute to maintaining their financial soundness. During this five-year period, it will be possible to outline the Operations Development Policies program (OPDs for its initials in Spanish), whose purpose is to support the member countries to promote policy actions and development results that contribute to the balanced economic growth, poverty reduction and sustainable development. In addition, the implementation of other financial instruments will receive support, such as insurance, trust funds, investment funds of high impact on the social and productive sectors, among others. Such studies, diagnosis and formulation of initiatives will include the level of education, income, capacities, employment, among other variables, which allow understanding the migration phenomenon, its causes and possible solutions.

b. The Bank will seek to innovate and enhance the financing and/or guarantees schemes, so as to offer an adequate variety of options to address the different needs for development. The implementation of pre-investment and support schemes will be searched, so as to find higher efficiency in the execution. In regard to the private sector, the business model will still cover the origin and syndication of structured loans through financial schemes such as

project finance, A/B loans, parallel loans, among others.

c. One of the challenges confronted by the region is the low level of production and innovation in its entrepreneurship canvas. CABEL has contributed to closing gaps by facilitating investment of the public sector on productive infrastructure, promoting innovation and seeking economic growth sustainability. Conscious of the existing lag compared to advanced economies and other emerging economies, for the 2020-2024 strategic period, it is necessary that the Bank continues enhancing innovation and development, by facilitating inclusion through entrepreneurship development, SMEs and their incorporation to the value chains. This acknowledges the need for supporting investments on research, development and innovation (R+D+I) in order to promote diversification, industrialization, and therefore, economic growth. The areas identified that have little attention by other institutions in the region, open the possibility for the Bank to adopt a new scope that guides actions that impact on the enhancement of the region's technological and productive capacity, by promoting the creation of an innovation center that facilitates the use of new technologies, particularly in electric transportation and mobility,

green energy, and the rural and climate change development.

## 27. Support efforts to reduce poverty and inequality, and in a focused manner, contributing to significantly reducing extreme poverty.

a. The Bank will collaborate with its members countries to comply with the 2030 Agenda. CABEL's actions during the period 2020-2024 will seek to adopt three international binding commitments: Sustainable Development Goals (SDGs), the Paris Agreement and the Aichi Goals. The latter will provide support, in a continuous and articulated way, to the migration to low carbon economies that are resilient to climate change for a green growth, through the strengthening of policies, plans, programs and innovative projects, as well as funding.

b. Within the strategy, progress will be made in implementing the Program for the Reduction of Extreme Poverty and Social Exclusion (PRPEES, for its initials in Spanish), for which a seed capital has been allocated for attracting members that work with the region with the same objective.





c. In coordination with the Bank's members, it will thrust a hospitality and education infrastructure agenda, among others, in order to improve the human capital in the medium and long term.

**28. Promote integration beyond the commercial scope and develop regional capacities that provide the region with better opportunities to compete in the global markets.**

a. **The Bank will support projects, public or private, that emphasize regional integration.** It will focus on interventions that are aimed at promoting competitiveness, connectivity, mobility, innovation, energy efficiency, value chains, sustainable habitat, among others.

b. **Planning and Dynamic model for the allocation of resources to the member countries will be carried out through a process that acknowledges variation on the resources demand of the countries.** In this sense, CABEL will use a "Dynamic proportionate model for the allocation of resources"<sup>16</sup>, that will guarantee credit diversification in a sustainable manner without affecting the credit demand requirements of any country.

c. **Financial mechanisms and alliances will be created, and continuity will be provided to them, in order to design and execute projects of regional impact.** This requires an adequate attraction and funds procurement, as well as generation of strategic alliances. In addition, the Bank will provide

continuity to its proactive dialogue with the Central American Integration System (SICA, for its initials in Spanish), and with the integration instances, so that political coordination opportunities are created. On the other hand, the development of innovative financing schemes or non-traditional financing schemes will be developed that facilitate funding integration projects. In this sense, the Technical Assistance Fund for Regional Integration Projects (FATPIR, for its initials in Spanish) would be reinforced, as well as the structuring and implementation of a Master Plan of the Golfo de Fonseca, structuring a regional trust fund of the Coffee Transformation Initiative (ITRECAFE, for its initials in Spanish), among others initiatives.

d. **Efforts of regional integration and boosting of the investment flow to the region shall be complemented, by supporting local capital markets.** For this purpose, the creation of an Investment Fund will be promoted, which will contemplate the creation and implementation of a fiduciary agency or structure in any of the local eligible legislations that facilitate and encourages the participation of non-regional capital; the above taking into account the prior experience of the

Bank as sponsor and major shareholder in the CABEL Fund.

e. **In order to boost development and integration of stock market in the region, CABEL will work on the formulation of a Regional Public Debt Market.** It will be done through the creation of a compensation, liquidation and custody mechanism that allows trans bordering auctions of public securities. This, as to encourage greater diversification of the investors base line, greater liquidity in the public debt markets and to generate scale economies that allow regional and non-regional investors to invest in the region.

f. **CABEL will lead the improvements in regional competitiveness.** To do so, it will promote an increase of productivity of the business canvas, through financing towards improving and facilitating the productive transformation processes (among them, agricultural industries), measuring in due form the environmental and social sustainability of these transformation activities. On the other hand, strengthening the financial system will be addressed so as to promote financial inclusion, banking, regional market and stock market development, managing associated risks diligently.

16. This model determines, in first place, the annual demand of assistance of the founding countries, then the proportion of credit to be assigned to the founding countries is estimated in order to achieve an "X" coefficient of credit regionalization. For each dollar extra of credit that is allocated in the founding countries, automatically it must exist an additional proportion that should be allocated to the non-founding countries so as to maintain the goal.

## 29. Strengthen the Bank's governance and institutionality.

**a. Corporate governance will be strengthened through the implementation of good international practices, which will allow strengthening of CABEI's capacities.**

Regulatory improvements will be promoted through an agenda of reforms<sup>17</sup> together with a plan and a route map to be approved by the Board of Governors. This strengthening of institutional capacities will allow the current members to expand its capital position, and at the same time, attract new strategic members that may contribute to reinforce the capital position of the Bank. To this end, CABEI will promote a second generation of reforms.

**b. Progress will continue in the promotion of transparency and information diffusion.**

The Board of Governors expressed in 2019 its institutional commitment to adopt mechanisms for strengthening transparency, promoting a systematic and deliberate transition in the institution, from the concept of confidentiality all the way up to the concept of access to information. This cultural change will reinforce the quality of its institutional management, as well as the promotion of transparency and information diffusion, in order to promote collaborative leadership and keep a robust business profile that capitalizes a compatible reputation with high levels of trust in the stock markets, with current and potential members, beneficiaries and the society in general.

**c. A comprehensive institutional communication strategy will be formulated to generate a broader knowledge of the importance of the Bank in the region.**

The communication strategy will give support to the bank's efforts in the regional integration

processes, its internationalization, and positioning in regional and global forums so as to achieve a robust financial position and mitigate reputational risks.

**d. CABEI will update and stress its human resources policy in order to increase productivity and efficiency in the face of the demands of the 2020-2024 institutional strategy.**

Consequently, doing so the Bank will open the necessary spaces to strengthen professional growth inside the Institution, establishing clear policies for succession of generations and incentives for developing talent within the Institution. Likewise, it will foster an organized and competitive climate that retains talent in addition to adequate compensation and salary benefit.

**e. Modernization of the Bank's operations.**

The intention of increasing the Bank's presence in geographical scopes and in new segments, demands incorporating technology as a thrusting tool for innovation and modification of business proposals. In this sense, the

interaction with its clients will require a trustworthy technological support and in line with the requirements of each business case. However, it will also require modernizing its regulations that regulate the Bank's operations and thus simplifying the administrative processes.

**f. The Bank will continue advancing in actions for Gender Equality.**

CABEI has received the certification "Economic Dividends for Gender Equality (EDGE) on Gender Equality, being the first Central American organization to obtain it. Following up to this certification, work will be carried out for stressing monitoring and implementing actions for improvement that imply gender equilibrium in all levels of the organization, salary equality with a gender focus based on competences and effectiveness of the policies, in order to guarantee the development of a professional career under equal conditions. Furthermore, work will be carried out towards strengthening a sensitive culture in aspects related to women's inclusion and defense of any type of aggression or abuse.



17. In 2011, through Resolution No. AG-10/2011, the Board of Governors approved a group of reforms by means of a "Modernization Plan of the Central American Bank for Economic Integration (Reforms, Measures and Strategic Actions)" on strategic vision matters, business model, governance scheme, financial management, robust analytical framework in the Bank, portfolio administration and organizational structure, as well as lessons of the Bank's capitalization process. The mentioned agenda will become a second generation of reforms in order to intensify the institution's strengthening, improve corporate governance and lead the Bank's aperture, hand in hand with the administrative reforms that result from said agenda.

### 30. Consolidate CABEI's financial position and its gradual and sustainable growth.

a. To increase CABEI's impact in the region's development, it will be necessary to offer innovative products and according to each sector, always ensuring they're financially sound. In this sense, the Bank will guide its efforts towards capturing resources throughout strategic alliances, structuring new financial products, based on their financial soundness and providing support to the national capital markets in order to provide funding in local currencies. Likewise, it will seek to generate greater leverage opportunities with international lines of credit and the use of trust funds will be reactivated so as to attract non-refundable financing from donors. Public and private sector needs will be taken care of in a specialized manner.

b. Implementation of the VIII General Capital Increase<sup>18</sup> will allow the Institution to continue having a robust net worth. This implementation begins with the commitment of the founding countries in increasing their capital position 40%. The increase of the other members or the attraction of new member countries will contribute to address the growing funding needs of the region<sup>19</sup> improve the terms of such funding, expand the institution's credit capacity, enable capital for the incorporation of new members and improve the risk rating. Said scheme of capitalization through new members has important strategic implications to be considered. The incorporation of new participants involves new opinions on the direction that CABEI should be following in the medium and long term. In view of the above, it is important to

establish capitalization processes that reflect CABEI's relevancy to its members and vice versa, hence requiring the establishment of a capitalization scheme that is in agreement with the Institution's growth and in line with the interests of all its members with a well-determined governance, that allows to continue consolidating the establishment of regulatory mechanisms so that its members may request repairs when they consider their ex ante or ex post rights have been vulnerated.

### 31. Strengthen mechanisms and impact on development evaluation measures.

a. CABEI is committed to lead the spur of interventions that significantly impact on poverty relief and development of the Central American region<sup>20</sup>. In this sense, the Institution will improve its monitoring and evaluation framework, in order to measure, in a more precise manner, the contribution of its interventions, favoring in this way the new management scheme based on development results, following the best international practices of the Multilateral Banks. To this end, the Bank will implement new processes and standards to collect information in the different phases of the cycle of projects and will reinforce its resources to analyze information and diffuse its results.

18. The Board of Governors, through Agreement No. AGOB-1/2018, agreed: "To proceed with the implementation of the VIII capital increase of CABEI for an additional sum of up to US\$2,000.0 million, increasing its authorized capital up to US\$7,000.0 million.

19. Estimate of CABEI on financing needs for the development of Central America.

20. It is understood in this document as the Central American region or Central America, the following countries: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Dominican Republic and Belize.



# GUIDELINES OF IMPLEMENTATION

**32. Strengthen the coordination and integration of the country and the region's priorities with the institutional ones.** The prioritization strategy of the Bank's interventions shall be determined by the coordination that is achieved by the Institution with the members countries when preparing their own strategies and in the adoption of global objectives for development.

**a. Alignment with the big objectives of the Global Development Agenda.** The programmatic offer of the Bank comprises not only the interests of the national development plans and of the regional policies, but also bases its focus on the Sustainable Development Goals (SDGs), which also constitute the basis of the interventions of the other cooperation and development agencies with presence in the region.

**b. Consolidation of strategic leadership of the Bank in the objectives of poverty reduction and the development of the Central American region.** The Bank will make available to its clients a value offer that is coherent with the necessities and challenges that each sector confronts. To this end, CABEI will segment the attention to its clients the public, private and financial sectors, in order to consider the particular characteristics and conditions of each one of them, as well as the development of the interventions that transcend the scope of one sector (Public - Private), such as the Public-Private Associations (APP, for its initials in Spanish).

**c. Promotion of initiatives for environmental sustainability.** In line with the declaration of the Board of Governors in regard to abstaining from financing projects related to exploration and extraction of mineral carbon and power generation based on it, making a reality this commitment by adopting measures for adapting and mitigating climate change will be stressed. Projects of climate change mitigation and prevention will be funded, as well as support to the low carbon economies, resilient societies, sustainable food production, clean energy generation and those projects destined to enhance efficiency in managing resources.

**33. Strengthen the operational capacity of the Bank.** The 2020-2024 strategy will demand adopting new ways of operating and at the same time eliminating the regulation that does not fit the exibility the Bank requires in order to fulfill its objectives.

**34. Expand management function of CABEI's representative office.** It becomes necessary to integrate greater functions to the regional offices in order to play a more proactive role in the execution of projects and programs approved by the Board of Directors. It will be necessary to procure greater efficiency in the response capacity.

**a. The organizational structure will answer the objectives proposed in the strategy and will be dynamic throughout its implementation.** For this purpose, an analysis and evaluation of the integration of the offices involved in the implementation of the strategy must be carried out, and define its human capital requirements, as well as systems and improvements during the initial phases of the cycle of projects that facilitate administrative acquisition processes to be more expedite and also other factors that allow an optimum operation.





### 35. Strengthen the Bank's corporate governance.

In addition to agenda of reforms that is developed for this purpose, it is important to align corporate governance with the interests of the region and the Institution.

**a. Strengthen decisions by consensus in its corporate governance.** For this reason, it is imperative to define an agenda of reforms between the authorities of the Institution and the Administration.

**b. To strengthen transparency, access and diffusion of information will be promoted.** Likewise, social Audit mechanisms are also enabled by beneficiary citizens. These actions will strengthen confidence in the Institution and will help push similar actions by public and private counterparts.

**c. To guarantee the efficient use of resources, austerity criteria in programming and executing administrative expenses will be utilized.**

For this reason, the Board of Directors and the Administration will make sure that expenditures add value and respond to the real needs of the Bank. These actions will avoid waste and abuse; and will install trust and good reputation to the Institution.

### 36. Operating Alliances with the public sector and network of financial intermediation.

The importance of the regional financial system has been demonstrated in the Bank's actions, channeling CABEL's resources to strategic sector for the region and for the Institution; however, the financial or political crisis that have affected this sector, demand a better cooperation with the Banks in order to determine defensive strategies to confront such

events. Likewise, opening to the private sector will demand implementing new initiatives of financial products for financing the small and medium production.

**a. Strengthen attention to the private sector.** In this sense, it is expected that CABEL will turn to be a referential for the Central American region in catalyzing private resources and Foreign Direct Investment (FDI), that it promotes relevant interventions contributing to providing support to the corporate business sector, promotes the development of inclusive businesses, and finally that the small and medium enterprise (SME) are offered innovative and alternative financial products; thus allowing the generation of formal employment, contributing to poverty reduction and to the well-being of the population. This with the purpose of being an agent of change in the economic and social development of the member countries.

**b. The Bank will include innovative instruments and financing models<sup>21</sup>** It is expected to contribute with this to the productive capacity, employment generation, income distribution and to poverty reduction and to the well-being of the population. The Bank together with the financial sector will contribute to the regional productive transformation. The Bank will offer modern and efficient mechanisms to facilitate access to credit and enable greater levels of financial inclusion. In this manner, it will seek to increase the capacity of the companies to produce, innovate, grow and trade either inside or outside of the region. Thus, it will promote a portfolio of products and financial services that will address the different phases of the productive cycle of the companies.

**37. Assistance to CABEL's counterparts in the public sector.** The Bank will increase coordination with the public sector and will directly assist in the formulation of projects and in creating awareness of the Bank's regulations.

**a. The Institution will accompany and advise its clients during the phases of the project.** In first place, through performing and divulging studies that boost the countries' development, as well as identifying, designing and formulating interventions. Likewise, it will attempt to accompany the authorities through counseling, so as to contribute to the compliance of the established requirements for the formalization, implementation and execution of the operations<sup>22</sup>.

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21. Among these instruments are the following: co-financing, blending finance, trust funds, potential supports, indirect Official Development Assistance (ODA).

22. Includes helping to promote the process of legislative approval, where it applies or when it is required.

**b. CABEI will contribute to strengthening the framework of public policies in the region.** The Bank will contribute with funding that favors harmonized national and regional public policies, in order to reinforce the institutions and contribute to the execution of government plans and programs<sup>23</sup> as well as integration. Also, it will support the instruments available, the development of reforms and regulatory frameworks that contribute to the business climate, competitiveness, productive, human and even social development, as well as environmental sustainability, among other topics. For such effect the Bank, will implement its own agenda for researching relevant topics for development, including the analysis of tendencies and contexts; in the same manner, it will make available to the region its Regional Center for Integration and Development (CRID, for its initials in Spanish), which will also establish alliances with universities and research centers.

23. Besides loans and cooperation in the traditional focus areas, this could include interventions of the Program for Operations of Development Policies (ODPs) in order to support policy actions in key areas for development and expected results with specific indicators that enable follow-up and measurement of the goals.

**38. Provide spaces for the coordination of international cooperation and specific development funds.** The Bank's internationalization will flow a greater supply of resources from different programs, which will require the bank to open the necessary spaces to integrate a coordination table.

**39. Formation and training of the Bank's human resource.** New development initiatives within the framework of the technological change that is foreseen in the region's future require of a dynamic that develops and trains human resource constantly.

**40. Strengthen CABEI's mechanisms of measuring and evaluating impact.** The consolidation of a model of management by development results, makes it necessary to update the instruments and methodologies of evaluation that enable measuring and reporting of the Bank's impact on the development.

**a. The institution will harmonize its evaluation with the best practices recommended by the Evaluation Cooperation Group (ECG) on evaluation topics of the multilateral development Banks.**

**b. Strengthen the preparation, design and execution of strategic proposals and initiatives that reflect how and why results are achieved, for which the Institution's Evaluation Capacity will be improved.** The Bank will also study successful cases among countries and sectors, in order to disseminate the lessons learned and cases of impact on development are then replicated.



III.

## ESTRATEGIA STRATEGY 2020-2024

### STRATEGIC FRAMEWORK

#### Resource sources

**41. The Bank intends to achieve sustained growth of financial resources consistent with the demands of its institutional strategy.** Consolidate its presence in the capital markets and enter new markets and instruments when they offer better financing conditions. Implement a long-term capitalization policy and the gradual and convenient incorporation of new members. The implementation of partnerships with multilateral organizations, international cooperation agencies and entities that provide funds for specific objectives and in line with the institutional strategy.

**42. CABEI intends to transition towards a better position in the global credit risk rating.** A rating as competitive as that of other multilateral organization with a triple AAA category, which would open capital markets in better financial conditions.

**43. CABEI will promote mechanisms and will cooperate with its member countries to boost resources that are generated or that flow to the economies, motivating consumption or an efficient management.** These could become an important contribution to the investment of member countries, specifically on family remittances,

acquired resources from social insurance and international reserves of the central banks.

**44. CABEI's process of internationalization, which is carried out since 2019, contemplates the opportunity of certifying the institution on global initiatives.** Which will open new opportunities to the region, as it has already been done with the green funds' initiative.

**45. Of no less importance in this strategy is the political will of its members in regard to respecting the condition of "preferential creditor" of the Bank, by complying with its contracted credit obligations, as it has done so far.** The flow of resources that every year are incorporated in the budgetary law of each country for payment of the debt service with CABEI, defines the "financial base line" of the Bank, considering that the greatest part of the bank's portfolio is concentrated as sovereign debt.

#### Asignación de Recursos

**46. The Bank contemplates a policy of resources allocation that is centered in the strategies defined by the countries and the priorities they establish, attempting to achieve a resource**

**allocation in correspondence with the Bank's strategy.** The diversification of the portfolio is an important element of such strategy.

**47. The resources allocation of CABEI is also conditioned by looking for an optimum point of geographical proportionality, so as to reduce the risk of a regional concentration of credits.** In this sense, the Bank will use a "Dynamic model of resource allocation proportionality<sup>24</sup>", that will guarantee credit diversification of the Bank in a sustainable manner without affecting the founding countries. The institutional effort for the next five-year period in terms of credit growth, will be consequent with the above-mentioned strategic framework for the procurement of resources.

24. This model determines in first place the annual demand to take care of the founding countries, afterwards, the proportionality of credits to be allocated to the non-founding countries is estimated in order to achieve a "X" goal coefficient of credit regionalization. For each extra dollar allocated in the founding countries, an automatic addition proportion will exist that should be allocated to the non-founding countries in order to keep the goal.

# 2020-2024 FINANCIAL PROGRAMMING



**Table 2** 2020-2024 FINANCIAL PROGRAMMING <sup>25</sup>  
(Millions of US\$)

Concept	2015-2019 Average	2020	2021	2022	2023	2024	2020-2024 Average
Approvals	2,096.0	2,573.0	2,825.0	3,078.0	3,318.0	3,445.0	3,048.0
Disbursements	1,672.0	2,627.0	2,054.0	2,051.0	2,767.0	2,876.0	2,475.0
Net Flow	404.0	669.0	713.0	722.0	754.0	757.0	723.0
Issuances in Capital Markets	1,009.0	1,250.0	1,300.0	1,450.0	1,475.0	1,500.0	1,395.0
Average Growth of the Portfolio	6.3%	7.5% - 8.5%					
Average Growth of the capital	7.8%	6.5% - 7.5%					

Source: Preparation based on data provided by the Financial Division.

48. Financial programming considers the eighth general capital increase - currently underway - that will increase the authorized capital in 2,000 million dollars and in the programs of capital payments of new members. During the five-year period, the portfolio will grow an annual average of 8%. If this rhythm of growth continues, during the 2020-2024 five-year term, the credit capacity of the Bank will be 45% higher than the previous five-year period.

49. For the 2020-2024 five-year period, the average annual approvals are projected to reach US\$3,038.0 million, resulting in an increase of almost US\$1,000.0 million per year, compared with the 2015-2019 five-year period. In the same manner, an average of annual disbursements of US\$2,475.0 million and an average net-flow of US\$723.0 million is expected. The average growth of capital resulting from the above-mentioned capitalization processes and the consistent generation of income as part of the institution's self-sustainability (average ROE of 4.8%) will place it in a 6.5% to 7.5% range.

50. Along with pursuing the highest financial profile, CABEI will gradually improve the financial conditions of the credits made available to its partner countries. The latter will be carried out through debt issuances in the international markets that optimize the funding cost and consolidate its recent status of SSA issuer (Sovereigns, Supranationals and Agencies), enabling access to a new base of investors like the central and reserve banks. In the same manner, it is expected to issue ESG bonds (Environmental, Social and Governance) and the procurement of local currencies, together with the mobilization of funds through co-financing and on-lending schemes.

51. CABEI's financial profile will be enhanced by obtaining the best possible risk rating, including the quest to turn the Bank into a AAA multilateral. The following critical path will be managed:

25. In order to comply with the presented financial programming in this instrument, a revision and adjustment of CABEI's Annual Operation Plan approved for 2020 - 2022 by the Board of Directors Resolution No. DI-136/2019 will be carried out, which should indicate how it will be monitored.

**a. Incorporate new members** that are highly qualified and industrialized, which could directly contribute to capital subscriptions for at least US\$900.0 million. The above, through establishing a strategic framework that enables identifying countries or public organizations with an international scope of action, that considers among others, the following aspects:

- Risk rating that is equal or better than the one the Bank has.
- Linkage with the Central American Integration System.
- Commercial relations with the region.
- Cooperation relations for the region.

**b. Preserve the current history** that confirms the highest valuation in regard to the Bank's preferential appreciation by the Risk Rating Agencies, keeping zero (0) arrears in the sovereign public sector.

**c. Maintain and/or** improve the valuations achieved by the Institution with the Risk Rating Agencies in terms of capital adequacy and liquidity.

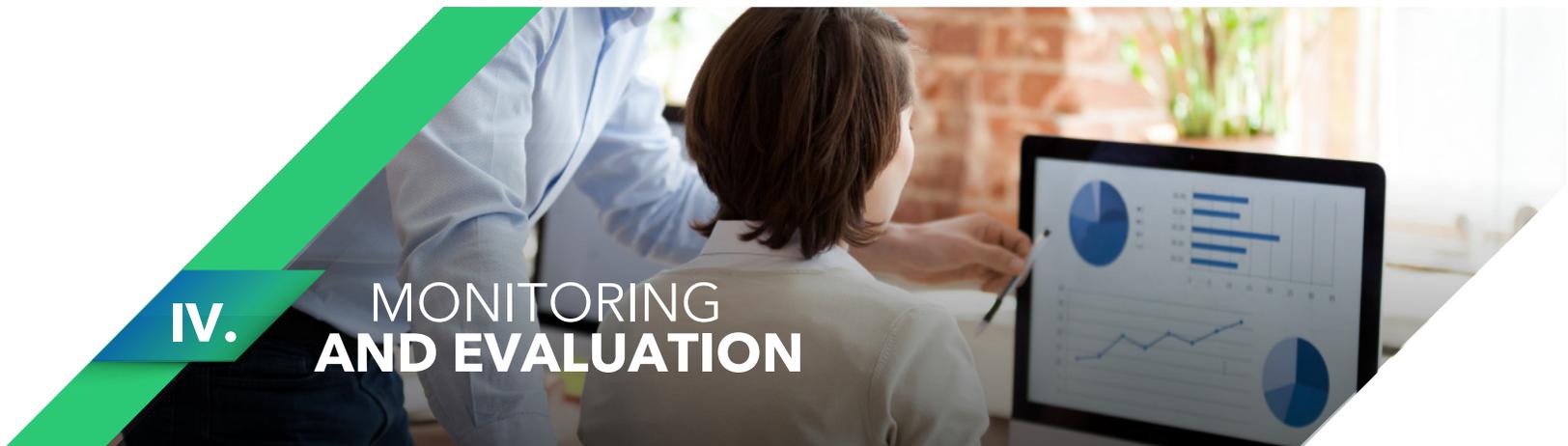
**d. Achieve and maintain** a level of geographical diversification of the portfolio, in which loans from the five (5) major exposures represent about 80.0% of the total portfolio.

**52. The geographical diversification process of the loan portfolio will continue, on the basis of the dynamic model already explained, with the purpose of consolidating other capital sources;** therefore, aligned with the critical path for reaching a higher rating, the Bank will continue identifying and financing credit operations in the borrowing countries with lower credit exposure.

**53. Added to the five-year period 2020- 2024,** the Institution will raise resources from the capital markets of an estimated amount of US\$6,975.0 million, seeking to expand its investors base and diversifying markets and issuing currencies. CABEI, on the other hand, is aware of the important role that the SMEs and the large enterprises play in the region's development. To this end, it will channel resources to directly finance initiatives in the framework of the APP, as well as private enterprises through the Intermediary Financial Institutions (IFIs), among other sectors; thus, the new approach will seek the procurement of resources tailored to the strategic development objectives of the five-year period .

**54. Complementarily, it is foreseen that during the strategic period,** US\$1,200.0 million will be realized in the dynamic allocation of resources from external sources of funds to operations related to climate change. This will allow to an increase on the flow of funding to the countries under competitive conditions. The above-mentioned allocations can be materialized under the on-lending modality or through managed co-financing.





## IV. MONITORING AND EVALUATION

**55. The monitoring of the strategy will be carried out through the Corporate Results Matrix (MRC) with relevant indicators and these indicators will then be integrated into other systems for measuring institutional performance and operational processes.**

For the Monitoring and Evaluation (M&E) of the strategy, the Bank will methodologically assume the techniques with international standards adjusted to CABEI priorities. In this sense, we will work with the evaluative parameters with which we already have experience with, this will be carried out through a second M&E document with all its specifications. Using the methodology of the Corporate Results Matrix (MRC).

**56. The MRC will consist of a set of Regional Development indicators, a set of CABEI's Contribution to Development indicators and a series of institutional management indicators to achieve the results and the products that generate impact on the regional reality.**

This reflects the institutional commitment to move from a financially focused management, to a management based on development results. The MRC will allow highlighting the results of the management, as well as the impact on development, so that it will allow observing the achievements at the financial, organizational level, among others, as well as the incidence in terms of poverty, inequality gaps, coverage of education, water, housing, medical care, among others. Derived from the MRC, a Monitoring and Evaluation (M&E) manual will be established with the different rules of the game for its application, so that the methods of measurement, responsible ones, among others, can be known in advance.

**57. CABEI considers its monitoring and evaluation scheme as a fundamental tool to guide institutional management towards achieving the objectives and goals of the 2020-2024 Strategy.**

For this, the set of goals and indicators that make up this scheme must be aligned with the performance management system, both individually and institutionally. The measurement of institutional performance will be linked to the MRC, therefore the corresponding regulations for applicable human resources incentives should be updated<sup>26</sup>.

26. Manual for Special Performance Complement (CED), PRE- 2/2015; and Manual of the Retribution or Salary Management PRE - 20/2011.

## V.

RISKS  
AND MITIGANTS

**58. Risk management is an important and transversal element in the development and execution of CABEI's Institutional Strategy.**

In this regard, various initiatives that seek to strengthen enterprise risk management (ERM) have been contemplated through the continuous improvement of the quality of the processes; as well as certain risks related to the adoption of new market practices (for example: migration of the Libor rate to another reference rate) and changes in the norms or regulatory environment, such as in the methodology for calculating reserves that could affect the achievement of the institution's objectives.

**59. The implementation of the strategy is subject to the evolution of internal and external events.**

Its execution is exposed to risks from international, operational or other contexts, which may affect the normal development of the institution. Therefore, its proper identification and management is important, in order to minimize its impact on the achievement of the goals that CABEI has set for this strategic five-year period.

**60. The region and CABEI may be affected by the uncertainty of the global situation.**

Although the United States of America, the main partner in the region has shown robust growth in recent years, the Federal Reserve has begun a new expansionary cycle announcing a decrease in the short-term interest rate. For its part, the slowdown in China's growth should be considered, due in part to the trade war with the US. In

addition, the European Union is showing signs of a slowdown, this time coming from its main economy, Germany. And the impact that the volatility of oil prices and the strengthening of the price of gold in the international markets may have in the world. All of those are elements that will be monitored during the five-year period.

**61. CABEI is vulnerable to sudden changes in deficit levels and fiscal indebtedness.**

This can reduce the debt margin of the countries, so it could affect the demand for loans that the Bank may face and hence the importance of continuously monitoring the financial health of the countries. Although the region is mostly in sustainable debt trajectories, extreme events such as international financial crisis can affect its debt capacity.

**62. The region is one of the most vulnerable to natural events such as earthquakes, droughts and floods.**

This type of events can affect the implementation of the strategy in the sense that it could lead to changes in the priorities of the governments in the region and in the public sector.

**63. The environmental, social and climate risks management of the interventions.**

In order to reduce environmental and social risk of the interventions financed by CABEI, only those interventions which evaluation and follow-up of environmental, social and climate risks demonstrate compliance with the requirements stipulated by CABEI's environmental and social policy, during all phases of the cycle of projects, will be financed, so as to achieve a net positive impact.

#### 64. Barriers to the realization of regional projects.

The main challenge will be to reach agreements between countries to support regional and sub-regional projects, as well as for the Bank to develop the capacities to realize the projects with which it is committed. In the same way, the difficulty regarding the differences in the regulatory frameworks between the countries is a reality, which may make the approval of these projects slower. For this, the institution will carry out adequate diagnoses for each of the projects and will promote proposals for harmonization of the corresponding legislation.

#### 65. Equity growth below expectations, limits the scope of CABEI's operations.

Changes in economic conditions can influence CABEI's capital increase, and an uncertain international context makes it difficult to attract new members that can expand the Bank's capital space. This presents barriers for achieving an optimal credit rating that allows offering greater added value to the member countries. Likewise, the growth of administrative expenses will be monitored so that it is based on austerity, graduality and relevant criteria, as the assets and portfolio growth is achieved.

#### 66. Suboptimal allocation of resources to fulfill the key activities of the Institutional Strategy 2020 - 2024.

An unsuitable distribution of human resources can minimize the institutional capacity for achieving its goals, such as strengthening the private sector or designing and implementing regional projects. Likewise, a technological transformation that does not respond to the established objectives limits the organizational capacity from becoming more efficient. To this end, CABEI will make the necessary investments in technology, as well as efforts aimed at reducing human capital gaps that are identified and that are relevant for a proper implementation of the strategy.





# CABEI's 2020 2024

INSTITUTIONAL

## STRATEGY

THE REGION'S SUSTAINABLE  
DEVELOPMENT PILLAR