**INSTITUTIONAL SUPPORT FOR THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI) AND MULTISECTOR CREDIT PROGRAM**

**(CA-0008)**

**EXECUTIVE SUMMARY**

**BORROWER:** Central American Bank for Economic Integration (CABEI)

**EXECUTING AGENCY:** CABEI, with the participation of intermediary financial institutions (IFIs)

**AMOUNT AND SOURCE OF FINANCING ? CREDIT COMPONENT:**

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| IDB: | US$100 million (Single Currency Facility) |
| Local counterpart funding: | US$200 million |
| Total: | US$300 million |

**FINANCIAL TERMS AND CONDITIONS:**

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|---|---|
| Amortization period: | 20 years |
| Commitment period: | 3? years |
| Disbursement period: | 4 years |
| Interest rate: | variable |
| Inspection and supervision: | 1% of the loan amount |
| Credit fee: | 0.75% per annum on undisbursed balances |

**OBJECTIVES:** The program's objectives are to (i) support CABEI's efforts to gain access to international capital markets with an investment-grade rating, and maintain that rating over the long term, and (ii) help Central America's private sector develop by supplying it with adequate credit.

**BACKGROUND OF THE PROGRAM:** Central America has good development prospects, and has shown that its economies can rebound. A sound CABEI can help the region advance further in this process. The five critical focus areas for CABEI in this respect are (i) governance, (ii) financial consolidation, (iii) risk-asset management, (iv) Nicaragua's debt to CABEI, and (v) institution-strengthening. The reforms already launched by CABEI are very important for its future; they now need to be completed and deepened.

CABEI's country strategies and overall strategy for

Central America are consistent with the Bank's. The principles underlying the two institutions' core policies are similar, including the IDB's policy guiding its relations with multilateral organizations.

**THE PROGRAM:** The program would have two components: (i) an institutional support component of IDB assistance for CABEI to comply with Standard & Poor's recommendations for improving its credit rating, and (ii) a credit component, in which funding for private-sector projects would be made available via intermediary financial institutions or through cofinancing with other local and international financing agencies such as the IFC and IIC. The loan would be released in three portions; CABEI would be able to commit the proceeds of each as progress is made in negotiations with the Government of Nicaragua on the reduction of its debt to CABEI, the prescribed financial ratios are attained, and the institutional reforms required to strengthen CABEI pursuant to Standard & Poor's recommendations are carried through.

**INNOVATIVE FEATURES:** To test the international capital markets, in October 1995 CABEI sought a credit rating from Standard & Poor's. It received a B rating, with a stable outlook.

**ENVIRONMENTAL CLASSIFICATION:** The Environment Committee, at its meeting of October 4, 1995, classified this as a Category III operation.

**POVERTY-TARGETING:** Though the credit component will fund projects put forward by small businesses and microenterprises, the program does not qualify as poverty-targeted under the terms of paragraph 2.15 of the Eighth Replenishment document.

**BENEFITS:** The proposed program is fundamental for CABEI's institutional and financial consolidation. That process will entail (i) possible CABEI access to the international capital markets with an investment-grade rating; (ii) reducing Nicaragua's public-sector debt to CABEI; (iii) building capacity in CABEI to be able to meet the needs of Central America's private sector; (iv) establishing new ties between the IDB and CABEI, drawing on each institution's comparative advantages and avoiding duplication of efforts; and (v) expanding CABEI's nonregional membership, to strengthen its system of checks and balances.

**RISKS:** The risks presented in this operation are (i) a delay in reducing Nicaragua's CABEI debt stock, or the impossibility of such a reduction; (ii) a suspension

of CABEI's revamping program after the IDB loan is disbursed in full; and (iii) weaker private-sector demand for CABEI funds for project financing.

**SPECIAL CONTRACTUAL CONDITIONS:**

The loan will be released in three portions, consisting of 30%, 40%, and 30% of the total. Funds comprising each portion may be committed for new credits and disbursed by CABEI as it satisfies the conditions precedent for each portion (see chapter IV, section F). When the IDB has declared a portion eligible for commitments on new CABEI credits, it will disburse the proceeds of that portion against requests from CABEI, duly substantiated pursuant to IDB policies and practices for global credit operations.