

UK enters new era for trade with Central America

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Central America has been a region of strong growth for decades. Since the 1990s, it has seen an average economic growth rate of 4.5% per year, which, in turn, has led to a fall in poverty and a rise in per-capita incomes.

Despite the challenges that Covid-19 has brought, Central America continues to offer tremendous opportunities in a variety of sectors. The World Bank's April 2021 report, 'Unleashing Central America's Growth Potential', set out recommendations for restarting and then maintaining the region's economic success as it manages the impact of the pandemic. Improving regional infrastructure, strengthening the local business environment and increasing investment all featured prominently.

Achieving these will require Central American countries to reach out to the world together, with its regional development bank, the Central American Bank for Economic Integration (CABEL), being crucial in strengthening their offer to overseas investors.

Thanks to its position as the leading financial institution and highest-rated borrower in the region, CABEL's strong credit rating and track record make sustainable and affordable financing available to its member countries through mitigating risk to the lender. The OECD rates CABEL highly and it benefits from good investment grade ratings by the major ratings agencies, meaning it represents better (and therefore cheaper) risk than many regional member countries on a standalone basis. This also makes it easier for overseas financiers to access both the Central American and wider Latin American markets including Colombia and Argentina.

This is why CABEL has now partnered with UK Export Finance (UKEF), signing a Memorandum of Understanding (MoU) earlier this year.

Trade between the UK and Central America was worth £1.2 billion last year, with Costa Rica being its largest trading partner accounting for nearly half of all trade. This trade is primarily concentrated on the food and drink sectors, with 20% of all UK exports to Central America being beverages and more than half of imports being vegetables and fruit.

However, as outlined by the World Bank report, there is also vast potential for UK companies to get involved in exporting



goods and services in the infrastructure and clean growth sectors.

UKEF support has been instrumental in making such projects happen around the world; from healthcare in Ghana and transportation in Egypt to clean energy in Taiwan. It has more than 100 years of experience in facilitating transactions and reducing and spreading the cost of financing for buyers of UK exports. In 2020-21 alone, UKEF provided £12.3 billion in support for UK exports and has billions more in available capacity.

This new arrangement with CABEL can bring this success to Central and South America. Crucially, UKEF can consider CABEL acting either in the traditional way as a lending bank benefitting from UKEF support, or as a borrower in its own right who can then 'onlend' to countries locally. This takes advantage of the fact that CABEL has its own OECD risk classification and it enables Central American countries and companies to access more affordable and flexible financing than they would receive if they were acting unilaterally.

Under this promising new initiative, representatives from our institutions will work together on a pipeline of projects and discuss how UK financing and British expertise can help facilitate suitable projects in the region. This new channel of cooperation is set to open more opportunities to UK businesses and help ensure their goods and services are more affordable to buyers in Central America. UKEF and CABEL are already working on that pipeline of projects together and hope to announce the first one soon.

UK exporters, international contractors, banks and buyers alike can also take advantage of the appointment of Diego Folino as UKEF's regional head for Central America. Based out of the British Embassy in Mexico City, Diego provides on-the-ground support and advice to buyers across Central America.

This MoU offers the best of both worlds for sovereign and corporate buyers in Central America, with all the benefits of working with their regional development bank alongside access to UKEF's award-winning financial services, all in one package.

With tremendous opportunities in infrastructure and clean growth sectors, Central America has the potential to be a centre for UK exports. The £1.2 billion in trade between the region and the UK is a drop in the ocean of what can be achieved. Trade can be a powerful engine for economic growth and increasing prosperity, and we are confident that this new MoU signals the start of a new era of British investment in the region.

UKEF financing has already enabled transformational infrastructure and clean growth projects to change lives across the world while bringing new business back to the UK, and, with this new MoU in place, it can do the same in Central America.

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