ALIDE

RESPONSES OF LATIN AMERICAN DEVELOPMENT BANKS

TO THE ECONOMIC CRISIS BY THE COVID 19 IN PARTICULAR IN AGRICULTURAL AND SMES SECTORS


INDAP

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INTRODUCTION

Even with more knowledge of the economic effects, the international crisis caused by the COVID-19 pandemic showed an uncertain picture at the beginning. It was estimated that it will be much greater than the 2008 crisis and a little less than the great depression of 1929. Although the latter depended, according to the International Monetary Fund (IMF), on whether the base scenario was met; that is to say, that in the second half of the year there was some control and the productive apparatus gradually began to reactivate.

In the April 2020 "World Economic Outlook" Report itself, the IMF maintained that in the 1929 depression the world economy fell 10% and developed countries 16%. In the 2008 financial crisis, the world economy went from a growth rate of 2.8% in 2008 to -0.6% in 2009. Later, The Fund estimated projections with a contraction of the world economy of -3% and -6% if the current situation continued throughout the year 2020, and an additional -6% if it went until 2021. If the picture had not worsened, there could have been, in 2021, a jump in growth of 5.8%. For Latin America and the Caribbean, it was estimated -5.2% in 2020 and 3.4% in 2021. Finally, the world economic growth was -4.4% and 5.2% in those years.

In that context, the Latin American governments announced a series of policies, compensatory programs and subsidies for addressing it. Some were based on broadening or refocusing budgets, while others favored accepting new debt, suspending foreign and domestic debt payments; monetary issue; and programs to support production sectors and/or programs that protect enterprises and the population at large, particularly the most vulnerable sectors. In the implementation of many of these measures, development banks were an important instrument of public policy.

The measures taken by the development banks were for the most part in line with government stipulations and focus on the smallest production units. However, given the nature of this unprecedented crisis, the health sector was given significant attention, unlike the case in past crises; this means the enterprises or institutions that provided health services and companies that produced health supplies, as well as technological solutions for monitoring and controlling COVID-19.

In this paper we focus our attention on the measures, actions and the role of public development banks, particularly in the agricultural and micro, small and medium-sized enterprise sectors, during the covid 19 crisis.

I. GENERAL GOVERNMENT ACTIONS AND MEASURES

Faced by the outbreak of the COVID-19 pandemic, most of the world's governments announced a series of policies, compensatory programs and subsidies for addressing it. Some were based on broadening or refocusing budgets, while others favored accepting new debt, suspending foreign and domestic debt payments; monetary issue; and programs to support production sectors and/or programs that protect enterprises and the population at large, particularly the most vulnerable sectors.

Governments in the region initially directed their efforts towards trying to stabilize the advances of the pandemic. Even so, some specific measures were taken, like supporting the production and social sectors. As a result, the governments adopted far more extreme, heavily expansive policies, like bringing down interest rates to a minimum close to 0% ; loosening monetary policy; purchasing assets and providing the financial system with liquidity; relaxing regulation or deferring the application of regulatory provisions; providing guarantees for bank loans or broadening their coverage; authorizing the public banking system to channel funds through institutions like fintechs. In some cases, as in Peru, those measures came to account for up to 12% of GDP.

The response of the governments and their actions in the tax and monetary spheres were aimed at reducing mechanisms that propagate the crisis and supplying enterprises, families, and local or subnational governments with the necessary liquidity for safeguarding jobs and avoiding the destruction of the entrepreneurial structure, above all in the smallest enterprises and strategic sectors, like suppliers of basic goods for the people's survival –food, health, basic services— and of essential services that kept the economy afloat, namely transportation, fuel, banks, etc.

Unlike the case in past crises, this time the private sector also took action, though not on a large enough scale or with the characteristics and scope of that of public and development banks. This was so much so that public banks were given a major role in upholding credit, providing liquidity, and short- and long-term financing. In point of fact, governments in the region took a series of specific measures, together with general policy measures, to offset the adverse effects of the crisis on national economies. Many of these measures had national development finance institutions as their creators and executors, in cooperation with local financial systems and regional and multilateral financial organizations.

II. MEASURES TAKEN BY THE DEVELOPMENT BANKS

The measures taken by the development banks were for the most part in line with government stipulations and focus on the smallest production units. However, given the nature of this unprecedented crisis, the health sector was given significant attention, unlike the case in past crises; this means the enterprises or institutions that provided health services and companies that produced health supplies, as well as technological solutions for monitoring and controlling COVID-19.

This crisis constituted a major challenge to economic policy-makers and particularly to our development finance institutions, as the countries' financial policy instruments. Development banks revealed their unique importance to the countries in these difficult times, insofar as compliance with their three significant roles is concerned: counter-cyclical measures, resource decentralization and distribution, and support for the production system and employment.

It was in this context that the presence and actions of development banks, as agents of public financing policy, took on even greater importance in the fulfillment of their counter-cyclical role, without losing sight of a longer-term vision and a continuous policy of income distribution.

In the immediate term, development banks helped countries mitigate the financial crisis by making larger amounts of resources available to the production and social sectors. In that way, the financial institutions granted new credit lines to the industrial, agricultural, social housing, small and medium enterprise (SME), foreign trade, and infrastructure sectors, among others, drawing on their own resources and funds supplied by the state. At the same time, they implemented the following measures: raised the borrowing limit of financial intermediaries to provide them with more plentiful resources; granted guarantees for bonds issued by enterprises; provided infrastructure funding; renegotiated debts and extended debt terms; offered loans at preferential rates to specific segments, such as small urban and rural enterprises, and for the purchase of social housing, and operated with new enterprises like financial technology companies (fintechs).

The measures taken by the development banks in keeping with government stipulations were of two kinds: cross-cutting and sector-specific. As the crisis advanced, the focus was placed increasingly on the latter; examples are health, services, social housing, and agriculture.

Foremost among the specific actions taken were continuous contact with customers plagued by potential problems arising from the impairment of their economic activity –namely agriculture, tourism, hotel services, and trade, among others-; revision and amendment of interest payment methods; capital extension and downward interest rate adjustment; valuation of new operations, with longer terms, lower rates and grace periods; and revision of credit guarantees and records in order to grant a working capital line on more favorable terms.

Examples of the cross-cutting measures taken by development banks were the following:

- **Allotment of new credit lines** to their customers with terms of up to 3 years and a maximum of one year of grace. In these cases, the loan amounts were generally set in accordance with the size of the payroll and the working capital needing financing.

- **Postponement and deferral of installment due dates** in the cases of personal loans and loans to independent workers and to micro and small enterprises. The terms ranged up to three years and the interest rates were lower than those charged for the original loans. In some cases, the interest was partially subsidized by the state on a temporary basis. Banco Nacional de Costa Rica (BNCR) expected in March 2020 alone to readjust the repayments of 107,305 loans. In Paraguay, Agencia Financiera de Desarrollo (AFD) hoped to provide assistance to some 50,000 MSE, drawing for that purpose on funds in the neighborhood of some US$93 million (for renegotiating operating capital and/or investment loans, with terms of up to seven years, including two years of grace). Banco Nacional de Desenvolvimento Econômico e Social (BNDES), announced the suspension of payments of up to US$6,000 million in loan principal and interest in March 2020 alone.

- **Temporary suspension of mortgage payments for home purchases**, altogether with the reduction of mortgage loan interest rates. By way of example, Caixa Económica Federal (CEF), Brazil's foremost mortgage bank, offered home building and development companies the possibility of pausing the payment of financing contracts by diluting the difference over the life of the loan. In Ecuador, Banco de la Seguridad Social (Biess) started to restructure and refinance its mortgage loans to allow for loan terms of up to 30 years with as much as 18 months of grace. Sociedad Hipotecaria Federal (SHF) implemented a US$363 million program, more or less, to stabilize construction loan portfolios, with a view to extending outstanding loan periods in order to moderate the effects of the drop in sales. Bridge loans that had not been extended were granted an additional loan term of up to 12 months, while in the case of bridge loans that had been extended one or more times, the additional extension was six months. As for Banco Hipotecario del Uruguay (BHU), the institution decided to reduce by 50% the May 2020 mortgage payments for all of its customers with outstanding mortgage loans and promise to purchase agreements.

- Specific loans for acquiring **new technology** to equip people for **teleworking**.

- **Loan guarantees for micro and small** enterprises covering up to 100% of the loan (in Argentina's case and between 80 and 98% in that of Peru, depending on the size of the firm). Argentina offered 25% loan coverage to medium and large enterprises. Peru expected, through its Reactiva Perú guarantee program, –the largest in the country's history, equivalent to 4% of GDP,- to assist some 350,000 companies. Costa Rican enterprises held individual Fondo Nacional de Desarrollo (Fonade) guarantees covering 90% of their loans. Peru also created the Fondo de Apoyo Empresarial a las MYPE (FAE-MYPE) (MSE Support Fund), administered by Corporación Financiera de Desarrollo (Cofide), that provided coverage ranging from 90 to 98% of the loan amount. This was applied to debt refinancing or reprogramming or to new working capital loan applications for terms of up to 36 months including a 6-month grace period. The Fund started operating with resources totaling some US$88.2 million, with which some 50 thousand micro and small entrepreneurs were expected to be benefitted. The subsequent increase in its capital to US$265 million tripled the Fund's potential.

- Securities issuances guarantee for SME debt instrument issues in the stock market.

- **Loans for the tourism sector**. Inasmuch as tourism was one of the sectors most heavily impaired, governments provided, as a contingency measure, for financial instruments to mitigate the effects, in an effort to safeguard jobs. In Paraguay, Banco Nacional de Fomento (BNF) was authorized to grant each applicant up to 10 times its monthly payroll, which was to be repaid in a single capital and interest payment at the end of the loan term, with a grace period of 12 months.

- **Loan guarantees to support entrepreneurs** in the tourism and bars and restaurants industry, one of the sectors hardest hit, whose sales dropped for the most part to almost zero. The financing was provided for working capital purposes, with maximum terms of up to three years, with six months of grace.

- Expansion of the credit available to micro, small, and medium enterprises (MSME) through banking and non-banking financial intermediaries.

- **Widening of the capital supply** to cover the everyday needs of the enterprises, by broadening the scope of existing credit lines. In March 2020, BNDES announced a total capital injection of roughly US$11,000 million).

- **Freezing and opening of new financing lines for state, provincial or municipal governments** in order to give them liquidity. Banco de Desarrollo del Ecuador (BDE) started restructuring the debts of subnational governments by suspending loan obligations for a 90-day period. Similar measures were taken in Brazil.

In Colombia, Financiera del Desarrollo (Findeter) granted direct credits with compensated lending rates to eligible territorial entities and sectors for use in financing projects and activities to fight the effects of the coronavirus and impede their spread. It was necessary for the territorial entities obtaining those loans to comply with borrowing regulations. The resources were to be invested in transportation, health, housing, education, energy development, drinking water and basic sanitation, among other areas. The rediscount credits enjoyed long terms, grace periods and favorable interest rates. The funds were intended for use in financing investments and working capital in the public and private sectors at a moment when liquidity was paramount for facing up to the challenges and needs created by COVID-19.

- **Increase in contractual values** without any obligation to provide real guarantees, but only personal ones. At the same time, loan operation rates and fees were reduced, and maximum limits were set in accordance with the size of the enterprise or customer.

- **Automatic extension of microloan payments**. Only if a customer was not interested in extending its payments did it have to notify the bank. A case in point is Banco do Nordeste de Brasil (BNB)'s Crediamigo Program. The bank served about 200,000 microloan customers and 5,000 microenterprises. Sociedad Hipotecaria Federal (SHF), in serving this same segment, allocated US$83 million for home improvement microfinancing by non-bank financial intermediaries with a financial product for loans of up to US$1,032, which enjoyed the guarantee of Fondo Nacional de Garantías a la Vivienda Popular.

Relationships with national and international **lenders**, to make it possible to postpone debt payments and immediately increase outstanding credit lines, so that funds already available for financing could be increased and channeled to borrowers from banks.

Some national and international development institutions in Brazil and their association, the Brazilian Development Association (ABDE), were working with the federal and state governments **to create alternatives** for the programs to mitigate the effects of the Coronavirus. Both sought to reduce the damaging effects on public health and the negative consequences for the already impaired national economy.

Provision of credit lines with special terms to help **health sector** enterprises of all sizes. Resources were made available for working capital and for investment in the purchase of raw materials with which to manufacture products in heavy demand –face masks, alcohol gel, tissues— and to add to the existing stock, to prepare hospital beds, and hire temporary staff, among other things.

In Chile, Corfo and the Ministry of Science, Technology, Knowledge and Innovation, with the assistance of the Government Laboratory, launched the "Covid-19 Innovation Challenge." This contest aimed to speed up the implementation of innovative solutions and/or ones involving scientific technology, in order to prevent the contagion of health workers caring for patients suspected of being, or known to be, infected with COVID-19.

Bancóldex, for its part, offered direct loans at compensated interest rates to finance projects for that purpose. Entities that applied to obtain such loans would also certify that these loans would be used to finance projects to fight COVID-19.

- **Establishment of working groups** and joint efforts with sector institutions and those serving entrepreneurs directly, altogether with public policy coordination, to protect enterprises so that the country could return to the economic development agenda as rapidly as possible.

Assistance with the financing of professionals in the **creative economy**, who were among those most adversely affected by the necessary social distancing policy. The spaces where creative industries operated had been closed since the very beginning of the pandemic and persons working in areas like the performing and audiovisual arts, advertising, literature, and the heritage, among others, lost their main source of livelihood.

Credit lines at preferential rates for the undertakings of population segments like young people, women, senior citizens, native citizens, peoples of African descent, rural dwellers, immigrants, and the handicapped, among others. Instituto Nacional de Fomento Cooperativo (Infocoop) in Costa Rica offered an example of this.

- **Opening of savings accounts** for all persons that needed to receive government vouchers (bonos de ayuda) for families without any income, either because they were living in poverty, had lost their jobs, or had been left without any earnings due to the situation.

Assistance to export firms. The government of Costa Rica announced the start-up of the "Alivio" ("Relief") initiative that provided roughly US$53.34 million in non-reimbursable funding. The recipients were 200 small and medium enterprises with export potential that were working in the agricultural, food, industrial and service sectors. The support of technical personnel was facilitated, so that the chosen enterprises enjoyed the financial and commercial coaching of advisers to overcome the crisis and strengthen their operations. The non-reimbursable funds could be used to purchase production supplies, rent machinery and for the partial payment of wages and salaries. They could not, however, be allocated for the payment of the salaries of management or legal representatives, the payment of debts, the purchase of machinery or the rental of buildings. The aim was to serve only those companies that are best equipped to survive despite the situation. In Peru, a transfer of some US$294 million was authorized to the Crecer Fund, which was being managed by Cofide. This fund offered coverage for loans to MSME and export firms for fixed capital investments or working capital.

- **Progressive adaptation of Basle III implementation** because of its pro-cyclical effect, with a view to limiting its negative impact on the delivery of short- and medium-term liquidity.

- **Boosting of platform development and operation**, in order to link up enterprises with the markets. In Chile, Corfo and Sercotec created the web platform *todosxlaspymes.cl* to support the country's entrepreneurs, as a direct channel of communication between SME and consumers. Todosxlaspymes would have access to and highlight a venue for collaboration in which the smallest enterprises could promote their efforts and get in contact with all their potential customers, in the expectation of increasing their sales.

In Costa Rica, the Ministry of Economy, Industry and Trade made a series of digital platforms available to SMEs for the sale of their products, as follows: **1)** Ciudad PYME (SME City): created to reduce the demise of the country's enterprises and its unemployment rate (*www.ciudadpyme.com*); **2)** Fygaro: which permits any person to sell over the web, in a physical shop, and even to automate business day-to-day operations. It combines billing, accounting, payment click buttons and web stores (*www.fygaro.com*). Integration is also provided with PayPal, Klap and First Atlantic Commerce for payment processing and with DHL Express and Correos de Costa Rica for logistics; **3)** Costa Rica Fashion Week: platform for national and international designers with an online payment runway, where any type of product can be marketed (*https://www.crfashionweek.shop/*); **4)** Compre PYME (Buy SME): cost-free for all entrepreneurs with or without a web presence, it was equipped with a virtual showcase for online product marketing (*https://comprepyme.com/*); **5)** Catálogo Correos de Costa Rica (Correos de Costa Rica Catalogue): without any affiliation charge, it links up virtual shops that sell products through Pymexpress de Costa Rica, a logistics support service for all SMEs that have their own virtual stores or that sell through social networks (*https://comercioelectronico.correos.go.cr/catalogo-pymexpress/*); and 6) SMEs without websites could accede automatically and free-of-charge to *https://www.kolau.es/costarica*, where they will be given a website with a PayPal payment schedule, whose earnings could be transferred to their bank accounts.

- **Funding of financial intermediaries**. Nafin and Bancomext managed a program of roughly US$2,523 million in Mexico through financial intermediaries, to contribute to enterprise liquidity. This program made it possible to lengthen loan terms or provide longer grace periods to creditors. New loans were considered for the purpose of supporting working capital needs and providing stock market guarantees and loans to improve the liquidity situation of borrowers. These guarantees, fully or in part, the payment of capital and interest on the issuance of commercial paper, stock market certificates or any other instrument used in national or foreign stock exchanges. Stock market guarantees made it possible to improve the ratings given by rating companies to stock issued for financing equipment operations, technological development projects, production and development of infrastructure, environmental improvements, liability restructurings and asset securitization (accounts receivable, promissory notes, remittances, and mortgages, among others).

- **Coronavirus Fund**. In Uruguay, Banco República committed to allocate US$150 million to the Solidary Covid-19 fund created for that purpose, as part of the contribution from the bank's profit in 2019.

- **Fintech as new channels for resource intermediation to MSME**. With the authorization of the National Monetary Council, Banco Nacional de Desarrollo Social (BNDES) began to transfer funds through financial technology service enterprises. The fintechs, that were registered with the BNDES online credit application platform, started operating with Bank resources, heating up the competition in this market and helping the money reach those in need. The benefits of this initiative, according to BNDES, are: the financial inclusion of enterprises that experience problems in obtaining loans, deconcentration of banks, competitiveness in the financial sector, innovation, entrepreneurial empowerment, and more efficient financial resource distribution.

III. DEVELOPMENT BANKS UNDER PRESSURE FROM LOAN DEMANDS

The drop in income, compounded by the need to meet enterprise wage, salary and financial obligations, drove the demand for financing and/or the deferral of liability payments on the verge of becoming due. This triggered heavy pressure in development finance institutions on serving the production and social sectors, which was reflected in the growth of loans by these institutions.

During the first half of 2020, for example, Banco do Nordeste made business loans amounting to R$3,400 million (some US$627 million), boosting its total lending by 34.8% compared with the same period of 2019. Micro and small enterprises, the segment most heavily affected by the crisis, received R$2,230 million (some US$411 million), which benefited 18,000 micro and small entrepreneurs, in a total of 24,214 loan operations from their own funds and those of the Fondo Constitucional para el Nordeste (FNE) in the first semester. This performance was equivalent to a 28% increase in the value and 15.9% in the number of operations compared with the same period of the previous year. A total of 86.4% of the emergency funds available during the pandemic went to this sector.

In the case of Banco de Desenvolvimento de Minas Gerais (BDMG), disbursements to micro and small enterprises topped R$400 million (US$72.6 million) in the first half of 2020, over 280% more than in the same period of 2019.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES), according to Central Bank data, in the second semester of 2020, granted R$17,200 million (US$3,172 million) to enterprises of all sizes. This sum was 247.8% larger than that disbursed in the first quarter of the year, when the COVID-19 outbreak was still in its infancy. Working capital lines alone expanded 4,040.5%. Actions taken to fight COVID-19 benefited over 171,000 enterprises with 5.2 million employees and workers, of which 99.7% were micro, small or medium-sized businesses.

At the global level, Banco Regional de Fomento do Extremo Sur (BRDE) found itself rapidly confronting a spontaneous increase in demand for financing, in which contracts over the first five months of 2020 reached a historical high of R$1,000 million (some US$186.2 million). The state of Paraná alone recorded over R$600 million (US$110.7 million) in loan operations over the January-to-July period, a volume 60% higher than that of the same period in 2019.

Colombia's Financiera del Desarrollo (Findeter) disbursed over 3.4 billion pesos in loans (US$921.6 million) at June 2020, and by all indications disbursements reached over 12 billion pesos (US$3.252 million) by the end of that year, 23.7% more than the 9.7 billion (US$2,629 million) that was projected for the financial year.

In the first semester of 2020, Banco Nacional de Fomento (BNF), of Paraguay, was able to increase its customer portfolio by 22% and its deposits by 30%, making it the bank with the heaviest portfolio growth for that period.

In order to serve the micro and small enterprise segment, Banco República Oriental del Uruguay (BROU), through its República Microfinanzas branch, increased its loan portfolio by 50% between March and July 2020, new clients being the recipients of the greater part.

The entire banking system in Chile did not account for as many as 200,000 loans at July 2020. BancoEstado's share was nearly 100,000, or 50%, of which the institution had approved 70,000 only 45 days earlier, during the most complicated period of the crisis.

IV. EMERGENCY SERVICE TO AGRICULTURE AS A STRATEGIC SECTOR

The first sectors to suffer the impact of the health crisis were transportation, ranging from taxis and colectivos (small multi-passenger vans) to mass transportation buses; trade and services, and what are known today as the creative industries. As the days passed, concern spread to other sectors, among them agriculture, a production sector vital for survival. Continued guaranteed food production was given greater attention and, as important as this was, also how to ensure the transportation media and pertinent logistics needed to secure its timely arrival in sufficient quantities to avoid scarcity, and in edible condition. But the most important factor was that the greater part of fresh and local food items was sustainably produced by small agricultural units or via family agriculture.

The Food and Agriculture Organization of the United Nations (FAO)[1] stated in 2019 that family agriculture is the practiced labor system on over 90% of the world's farms, which produce some 80% of its food, value-wise. In the case of Latin America and the Caribbean, there are over 16.5 million agricultural holdings scattered throughout the region and eight out of every ten of these belong to the family agriculture system.

More than 90% of all agricultural holdings in Antigua and Barbuda, Chile, Guyana, Haiti, Honduras, Paraguay and Suriname are part of the family agriculture system. In countries like Brazil, the Dominican Republic, El Salvador, Grenada, Guatemala, Nicaragua, Panama and St. Lucía, over 80% of the agricultural holdings are worked using family agriculture.

FAO also maintains that 60 million women and men are engaged in family agriculture in Latin America and the Caribbean --in other words, almost 1 out of every 11 perspons is closely involved with this sector, an important source of labor in rural areas.

Support for the agriculture sector was initially indirect, with a focus on logistics, the transport needed to guarantee supply of the large distribution centers and facilitate continued exports of both agricultural and non-agricultural products.

At the same time, new credit lines were opened with capitalization funds or self-funded by the development banks, which, at that time, activated or created some special financing lines for the agricultural sector, precisely one of the sectors hardest hit by tight credit restrictions. Lending terms and access to credit insurance were eased, as well. In the case of loans, for example, maturities were lengthened, interest rates reduced and a whole series of details concerning credit terms were relaxed.

Generally speaking, some funding limits were set for development banks, particularly those engaged in wholesale banking with financial intermediaries. In some countries, however, those limits were relaxed to provide financial intermediaries with higher borrowing margins, so as to be able to channel more resources through them. For that reason, non-banking institutions played a very important role during the crisis in getting loans to the smallest and poorest sectors –in other words, to family agriculture.

Guarantees were also provided to enable microfinance institutions to obtain funds from not only development banks, but also other financing sources. In this case, what development banks or the State itself did was to provide guarantees to permit them to obtain funding and even commercial bank financing.

The State in some countries, aware of the importance of suppliers of inputs as one of the most important enterprise financing sources, established alliances with those suppliers to permit them to continue financing short and medium-term purchases of agricultural inputs and seeds by rural producers.

Insurance systems were reinforced and the per-

1 Taken from http://www.fao.org/americas/noticias/ver/es/c/1196035/.

centage of the premium that was subsidized in some countries was raised. Furthermore, agricultural loan insurance fund equity was raised to enhance the capacity to provide coverage for a larger loan portfolio.

In December 2019, Banco Nacional de Argentina reoriented its credit policy toward the MSME segment. When the COVID-19 health emergency was declared, the institution made special loan assistance lines available, which included management of nonpayments or defaults, refinancings, working capital loans, crop loans, check discounting, investment, and microenterprise assistance, among other things.

Starting in April 2020, confronted by the extension of the quarantine and the need for micro and small enterprises to cope with the payment of wages and other capital needs, Banco Nación arranged for new lines at substantially reduced interest rates. A total sum of some US$1,135 million was allocated for those lines, at rates far below those in effect up to that moment.

In **Bolivia**, Banco de Desarrollo Productivo (BDP) –S.A.M., together with other institutions like the Ministry of Rural Development and Land Planning, worked to promote the provision of accurate information to producers in regard to the country's health emergency, in order to avoid propagation of the coronavirus.

Among these actions were the dissemination of information about government provisions stating that people engaged in food production or the provision of agricultural inputs, could continue their activities without interruption in order to guarantee continued operation of the production and supply chain. This was to be done according to a time schedule and using the methods applicable to their particular activity.

In addition, a working group was set up comprising the Municipal Government of La Paz, the capital city, the Universidad Mayor de San Andres (UMSA), among the country's most important universities, and private producers' and development organizations, with the mission of guaranteeing the food supply during the health emergency by implementing mobile street markets to supply distant areas during the quarantine period.

A list was also prepared of priority food items in view of their importance in the national diet, obtainable from towns and districts where the BDP maintained an important customer portfolio.

In **Brazil**, Banco Regional de Desarrollo Económico del Extremo Sur (BRDE), together with the State government, launched a permanent revolving fund to support priority projects for the State's development. Endowed with resources on the order of US$58 million, it was intended to finance activities that would create jobs in the areas of stockbreeding, family agriculture and agroindustry, cooperatives and storage facilities.

BRDE, jointly with others of the region's public development institutions, took action to leverage investments and provide resources to small farmers and to the rest of the sectors considered strategic for creating jobs. BRDE was entrusted with creating easy loan lines with low interest rates to enable the funds to reach producers and those who create jobs.

Given the situation existing at that time, BRDE also renewed its agreement with the Secretariat of State for Agriculture and Food Supply on the Solidary Tractor program that allowed family farmers in Paraná to finance tractors, spraying machines and harvesters at more accessible prices. This program has financed 13,000 units for small producers in Paraná since 2007. The program is the result of an associative arrangement encompassing the Secretariat of Agriculture and Food Supply, the Rural Development Institute of Paraná – Iapar-Emater, Fomento Paraná, financial agents and loan cooperatives, together with manufacturers of agricultural tools, equipment, tractors and machinery.

BRDE also launched a coronavirus emergency loan package totaling some US$269 million at the end of 2020, to meet emergency needs of its customers, particularly micro, small and medium enterprises and individual entrepreneurs, as well as municipal governments. This is in addition to another US$179.3 million of the Program for Promotion of the South, put into effect in January of 2020 with the aim of promoting sustainable development using the bank's own funds.

Banco do Nordeste (BNB) de Brasil extended its financings for up to six months and announced new loans by contracting with projects harmed by the economic crisis stemming from the new Coronavirus pandemic. Drawing on resources of the Northeast Constitutional Financing Fund (FNE), working capital was financed with a grace period of up to six months and amortization payments proportional to the billing flow --in other words, respecting the seasonal nature of the borrower's income.

With a view to simplifying access to credit, the Bank also doubled the contract value from some US$9,452 to US$18,904, without demanding binding collateral and accepting personal guarantees. At the same time, it reduced its rate schedule for loan operations by implementing maximum limits differentiated by customer size, in order to adjust and equalize the amounts of lending to the billings, especially for micro and small entrepreneurs.

Priority in the rural sector (agribusiness and family agriculture) was given to compliance with cost support loans, considering the region's farming calendar, and making some US$832 million available between April and September 2020 to the region where it operates --an increase of more than 50% compared with the same period of 2019.

The Bank subsequently moved to renegotiate the debts of agroindustrial entrepreneurs. Individuals and enterprises in default at December 17, 2019 were eligible to benefit from the measure. The Bank claimed that the rural economy had been heavily impaired by the impact of the coronavirus pandemic, thereby justifying taking more flexible measures of this kind.

The intention was for the renegotiation to make it possible to adjust project cash flows. BNB offered two types of contract redesign. The first consisted of extending payments overdue up to 90 days and installments overdue at September of 2020, extending the final financing period up to 6 months. The second option was to renegotiate payments overdue up to 90 days and those maturing in September of 2020, adding the amount in question to the other payments stipulated in the operation, without making any change in the final maturity date.

As for the interest rate and performance bonus, the same terms as those of the original contract were guaranteed. Furthermore, when the operation's final maturity or guarantees were unchanged, the renegotiation could be carried out by means of a Conclusion of Adherence, without any need for amendments in the case of micro, small and medium enterprises.

While offering the renegotiation of current contracts, BNB also had access to resources of the Northeast Constitutional Financing Fund (FNE). These resources are used to finance agribusiness demands. By way of example, rural producers were offered funds for expenditures during the production cycle of each activity. The term was up to 24 months, defined according to the specific production cycle in question.

Other financing lines existed, such as FNE Agro Inovação, which enabled producers to incorporate new technologies into the rural enterprises by financing the procurement of machinery and equipment and building silos, among other activities. In those cases, the maximum operation term was up to 12 years, with a grace period of as much as 4 years, depending on the project's location and customer size.

In the case of **Banco Nacional de Desenvolvimento Econômico e Social (BNDES)**, a US$567 million fund was approved. The resources came from an already existing program for the sector that was in little use, BNDES Pro-CDD Agro, and could serve as a loan option for farmers and enterprises suffering drought conditions.

The proposal only structured, using tools already existing in the market, a new option to make the sector self-financing by searching out investors in the market through BNDES and BNDES Pro-

CDD Agro, which already served the sector and at that time amounted to some US$567 million.

The fund boosted issuance of Agricultural Credits (CRA) and CDCA (Certificates of Agribusiness Credit Rights specifically intended for cooperatives) issued by holders of producer debts, --for example, of bonds issued by guaranteed future harvests. This enabled producers who financed their crops without having access to public credit lines to fulfill their immediate commitments. In 2019, the sector issued R$1,500 million (US$284 million) in CRAs. The purpose of this tool was to avoid damaging the chain and thereby bringing about heavy noncompliance among farmers. Nonpayment by many producers to the enterprise or cooperative that had provided the resources could, in some cases, result in the termination of their loan. This is what the tool sought to prevent, especially among viable enterprises facing a temporary problem of liquidity.

In **Colombia**, the **Fondo para el Financiamiento del Sector Agropecuario (Finagro)** offered US$314 million with which to channel resources to agricultural producers. These loans were intended for emergency assistance to enable producers to cover their payrolls and keep on producing. Finagro would guarantee small and micro producers belonging to the production chain.

It maintained a special quota for small producer loan operations as large as US$157 million, considering that the financial sector was experiencing liquidity problems and that Finagro could help them at that moment by channeling resources to agricultural producers.

Finagro also made a working capital line of some US$587 million available, with special terms and grace periods, which was intended for large and medium producers.

Furthermore, in late March of 2020, the Fund opened a special credit line – LEC, Colombia Agro Produce, designed to enable agricultural producers to keep up their production, thereby guaranteeing the food supply and ensuring that their produce reached the final consumers. Colombia Agro Produce was to provide a subsidized interest rate and comfortable repayment periods.

Drawing on resources of the Ministry of Agriculture and Rural Development (MADR), an interest rate subsidy equivalent to some US$12.6 million was established, which, in the event of the health emergency, could be distributed among the various producers making up the agricultural chain, from the phase of production to that of marketing (it was not applicable to large producers in the latter case).

In **Costa Rica**, the Instituto Nacional de Fomento Cooperativo (Infocoop) reached agreements, first, to lower all interest rates on its loans to the country's cooperatives, in order to support that sector –particularly in the area of agriculture—, which had been suffering the ill effects of COVID-19.

The **Sistema de Banca para el Desarrollo (SBD)** (Development Banking System), accordingly, submitted a draft law and an action plan favoring the cancellation of agricultural producers' debts of long standing, in addition to the approval of moratoria on loan payments, new grace periods and more guarantees in order to facilitate access to loans. Its aim was to help agricultural MSMEs cope with emergencies engendered by the new coronavirus by cancelling 100% of the retail banking financial liabilities repayable by 2,705 micro, small and medium agricultural producers to the Fondo Nacional para el Desarrollo (Fonade), previously known as the Fideicomiso Nacional para el Desarrollo, Finade).

Secondly, according to the institution itself, it sought to "facilitate a grace period of up to 12 months for repayment of the capital of Fonade-financed operations. This was to benefit economic enterprises, activities and sectors that had been adversely, but not seriously, affected, as with the abrupt stoppage of their sales, contracts or other such severe negative effects, but through a reduction of their cash flow."

The third of the agreements was a moratorium on the payment of capital and interest for a maximum period of six months on loans granted from Fonade resources.

That moratorium, in addition to covering capital and interest, benefited economic MSMEs, activities and sectors that had been seriously affected by a dramatic reduction in sales, suspension of contracts, total or partial closings, or other aspects directly related to the health emergency brought on by the coronavirus.

The fourth measure was the channeling of urgently needed loans whose investment plan called for working capital for MSMEs. This financing could also go hand-in-hand with individual guarantees of up to 90% of the loan amount.

The idea behind these last two measures was to ensure that small enterprises continue to actively engage in some activity and continue to pay their work staffs during the emergency. According to SBD, these emergency measures required the use of some US$14.14 million of the tax revenues produced by so-called "Banca de Maletín,"[2] or Portfolio Banking, to enable loans to weather the adverse situation.

According to the law, "the resources produced by this tax are to be used for the economic prevention, rescue, recovery and reactivation of entrepreneurial and production activities at risk as a result of market, climate, volcanic, flooding, and disease conditions or that have been negatively affected by natural disasters or anthropic factors," like the coronavirus situation.

Furthermore, up to an additional US$17.68 million from Fonade's Fondo de Avales y Garantías (Guarantee Fund) would be allocated to cover loans. By doing so, up to 50% of each loan would be guaranteed. The resources would be applied to financing, refinancing or restructuring operations. SBD would also provide partial guarantees of up to 50% for MSME bond issues in the market.

Chile's Instituto Nacional de Desarrollo Agropecuario (Indap) offered information about all formalities that could be accomplished in Indap remotely by farmers during the coronavirus emergency through the use of electronic devices; examples include: Prevention Handbooks designed by Indap and other State services covering on-the-job health and protection measures, machinery and tool maintenance, contact with family members, workers and customers; documents with detailed explanations of measures taken by Indap to favor its users, such as the 90-day automatic extension period at loan maturity; and the Indap Platform where rural agricultural products and suppliers could be registered with information about available supplies for sale, contacts and accreditations, all organized by item, category and region.

Interest and loan payments were postponed in **Ecuador** for public banking clients. This decision was taken in addition to the 6-month deferral for the tourism and export sectors and small taxpayers of income tax payments for the second quarter of 2020.

The delivery of long-term contingency loans for production recovery and for self-employed entrepreneurs and workers was subsequently confirmed. The agricultural, agribusiness and agroexport sector was included in all of these measures.

In **Honduras, Banco Hondureño para la Produccion y la Vivienda (Banhprovi)** proceeded to effect a three-month freeze on loan capital and interest. In the case of agricultural credit, automatic revolving lines were created, so that intermediary banks would not have to rediscount large quantities of funds, and in order to make Banhprovi financing more expeditious.

Agricultural loans were granted at 8.7%, a highly

2 The loan of money in the country by banks domiciled abroad through the visit of an executive is called "portfolio banking." This tax was created through a legal reform in order to supply SBD with fresh resources and stipulated that the interest, fees and leasing of capital goods without exception, paid by enterprises domiciled in Costa Rica to enterprises abroad, would pay a graduated interest rate of up to 15% four years after the entry into effect of the law, which was approved in 2014.

favorable rate for the local market. This credit was of great assistance in the country's agricultural transformation by making some US$325 million of resources available for lending, but entailed a sacrifice for the bank of some US$65 million in interest payments that it failed to receive.

As a measure for guaranteeing the country's food security, Banhprovi also made disbursements for credit lines to banks, cooperatives, microfinance companies and farm loan banks to enable them to give immediate approval to agricultural credit applications at rates of 8.7%.

In **México, Fideicomisos Instituidos en Relación con la Agricultura (FIRA)** approved a series of temporary operating conditions in order to offer funding and/or guarantees to accredited enterprises that fulfilled their eligibility requirements, as well as to financial intermediaries (IFIs) operating directly with the institution.

- These conditions applied to **Credit rollover loans**. IFIs were permitted to rollover portfolio loans previously funded or guaranteed by FIRA, if among current portfolio holdings at February 29, 2020. Eligible liabilities included existing and expired capital and ordinary interest on discounted loans and/or ones guaranteed with FIRA resources. The funding rate corresponding to the IFI was applied, for a maximum loan term of 10 years, set in accordance with the enterprise's payment capacity as determined by its credit analysis; grace periods of up to 3 years could be granted during that period for the repayment of the principal. Loan rollovers originally guaranteed by FEGA[3] were also eligible for guarantee coverage up to the originally agreed nominal percentage of coverage, without exceeding the original effective coverage. IFIs, with FIRA's prior authorization, could receive guarantee service with nominal coverage of up to 50% for loan rollovers originally funded by FIRA without FEGA guarantee service, provided that the loans for rollover were in effect and the probability of noncompliance was lower than 16% at February 29, 2020.

- **Additional credit for accredited borrowers with rollovers**. FIRA granted funding and/or guarantees to IFIs operating directly with them, for the purpose of extending short-term loans for working capital and long-term credits for fixed investments. Operation was permitted with all of the cited types of loans indicated in the funding service operating conditions between FIRA and the IFIs. The interest rate was set in accordance with the existing schedule of interest rates.

- Depending on the available resources, **interest rate support** could be provided to facilitate payment of the additional loans. Those eligible were direct IFI borrowers or those receiving FIRA financing through an enterprise that would receive and then distribute those funds (para-financial, mass loan and finance institutions). Eligible loans were those with a 3-month minimum maturity period. Secured, collateral, and factoring loans, microcredits and rollovers were not eligible. The support period was up to the first year of the loan, in accordance with the amortization schedule. The amount of the support was up to 2 percentage points (pp) for loans of up to 160,000 UDIS investment units (some US$43,047). FIRA could automatically terminate its support if it received irrefutable evidence that the enterprise was cutting its payroll by more than 20% of the workforce that existed on February 29, 2020.

- **A first loss guarantee** was assigned to loan portfolios created by each IFI as of the entry into effect of this measure for the purpose of backing rollovers and new loans to enterprises already in IFI portfolios, with the following stipulations: **a)** Operations were permitted with all

3 FEGA is a Special Technical Assistance and Guarantee Fund for Agricultural Loans that operates as a trust fund instituted by the Federal Government to operate within FIRA. General purpose: to extend guarantees to multipurpose banking institutions or non-banking financial intermediaries, in order to support partial recovery of eligible loans for FIRA granted by financial intermediaries. It supplements guarantees provided by the borrower to the financial intermediary as backing for the loan, in order to boost the flow of credit to Mexico's agricultural and rural sector.

of the loan types indicated in the funding service operating conditions between FIRA and the IFIs, including microcredit production operations; **b)** loan portfolios would be established by loan type, for working capital and for fixed investments and rollovers operating in the cited conditions; **c)** a fund would be created with the equivalent of 7.5% of the loan portfolio for working capital and 12.5% of the loan portfolio for fixed investments and rollovers; **d)** guarantee coverage would extend to up to 100% of the loan balance, without exceeding the fund for working capital loans or for fixed investments and rollovers; **e)** exercise of the guarantee was subject to the application of a deductible by the IFI: 2.5% of the loan portfolio for working capital and 5% of that for fixed investment and rollover loans; **f)** the IFI could decide to take out a supplementary FEGA guarantee of up to 50% for the entire eligible portfolio, to cover any noncompliances in an IFI of more than the previously cited 7.5% or 12.5%, as applicable; **g)** the first loss guarantee portfolio would have a cost reimbursable by means of a subsidy on the guarantee premium. Microcredit production operations were eligible only for the traditional FEGA supplementary guarantee, loans granted by banking IFIs through para-financial and mass credit enterprises and financial institutions; and **h)** the guarantee service would cover the total loan period of all credits comprising each portfolio.

- **Credit and guarantees to eligible enterprises with IFI funding from their own resources.** Granting of funding and guarantees to IFIs with which to provide support through rollovers or new loans to entities that were not necessarily FIRA portfolio enterprises. In order to be eligible for the guarantee service, those loans, at the moment of registration in the FIRA systems, had to demonstrate a probability of noncompliance of less than 16%.

- **Liquidity loans for IFIs**. Temporary loans could be granted to fund IFIs, for liabilities not covered by borrowers, so long as these were portfolio holdings already discounted by FIRA and that no anomalies attributable to the IFI had arisen in the course of the financings. Maximum loan balances could not exceed 10% of the credit line authorized to the IFI and the amortization period could be no longer than 100 calendar days as of the date of the authorization.

- **The funding rate was maintained even when the IFI risk rating declined**. If the IFI risk rating deteriorated, the same applicable funding rates would be kept, so long as these conditions prevailed.

- **80% guarantee for IFIs granting financing lines to banking financial intermediaries (BFIs)**. Guarantees of up to 80% would be extended to BFIs in order to encourage other market participants to grant financing lines to BFIs, as provided for in the FEGA Guarantee system for BFIs, in financing BFIs in direct operations with FIRA, as well as in the guarantee program for broadening financial services to BFIs.

FIRA recommended, in order to enhance support to the target sector, that IFIs refrain from: a) paying dividends to IFI shareholders, as well as using any other mechanism whereby equity benefits a transferred to them, or assuming the irrevocable commitment to pay them any benefits for the fiscal years of 2019 and 2020, including the distribution of reserves; and b) repurchasing shares or resorting to any other mechanism for reimbursing shareholders. The aim was to jointly improve IFI positioning in order to absorb potential losses and guarantee that the system would be able to draw on more resources for economic assistance.

Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (FND) participated in the Economic Revitalization program for micro and small enterprises, which aimed to boost new loans or financings and a Special Contingency Program for clients experiencing problems of liquidity.

The Integrated Rural Finance System, made up of the Shared Risk Trust System (FIRCO), the Capitalization and Investment Fund for the Rural Sector (FOCIR), the National Fund for Agricultural, Rural, Forestry and Fishery Development (FND) and AGROASEMEX, the public insurance institution, took a series of actions to serve micro and small enterprises requiring financing and risk coverage for their rural activities.

These actions were taken to follow up on and supplement regular Development Bank activities, particularly of FINAGRO, to bolster Mexican Government measures to offer viable alternatives to the country's micro and small entrepreneurs in coping with the health emergency brought on by COVID-19.

The actions put into effect included the possibility of opening new financings to clients and borrowers in order to supply them with the tools and resources needed to keep up and strengthen production activities relating to micro and small rural production enterprises, together with those focusing their efforts on agroindustry and food production throughout the country.

Financing and risk coverage could be granted by means of instruments like: fixed rates, price coverage or income insurance, to give producers better options for maintaining their production activities and jobs and, later, attaining greater growth through the use of mechanisms that could become available during that period.

Among the alternatives available to FINAGRO are income insurance covering the historical lot yield and, at the same time, providing price coverage in the futures market for the product. This gives producers greater certainty regarding their income when marketing their products.

In addition, FND updated the **Economic Reactivation Program** and the **Special Contingency Program**, in order to provide assistance to producers that, as a result of a series of adverse situations, were at risk for overdue loans. The aim was to enable micro and small rural enterprises to reestablish their production activities and boost national economic recovery, particularly for those at risk due to the health crisis.

These measures taken by FINAGRO were intended to provide timely service to its clients, Mexico's rural and agricultural food sector, as a result of the contingency created by the pandemic, and were in line with national government efforts.

In **Paraguay, Crédito Agrícola de Habilitación (CAH)** postponed maturities reached between March and May of 2020 for a 90-day post-maturity period, irrespective of the result of loans or renewals, refinancings or rollovers. Only after that period had elapsed could clients still unable to pay their debts for any reason request refinancing.

CAH also made new credit lines available, targeting the "Production, Trade, Services and Consumption" sector. The beneficiaries were family agriculture workers, small entrepreneurs, and micro and small production, commercial and service enterprises. The interest rate charged was 8% per annum on the outstanding balance (without any extra administrative expenses), a loan term of up to 24 months, and a repayment schedule established in accordance with the cash flow of the income producing activity. Loan sizes ranged from some US$308 on up to US$8,407, depending upon the applicants' credit profile and rating.

Banco Nacional de Fomento (BNF) of Paraguay decided to let the following six monthly payments of customer loans (from March to August 2020) pass without collecting any charges or interest on them. This was just one of the measures taken to cope with the economic impact of the Coronavirus. It was implemented automatically, therefore requiring no paperwork on the part of the clients.

This benefit was applicable to loans payable in monthly installments whose capital balance was equal to or less than some US$151,000 and that had no record of payment delinquency of over 30 days at February 29, 2020.

These measures taken by BNF were in agreement with those announced by the Central Bank of Paraguay (BCP) to cope with the economic and financial impact of the COVID-19 epidemic in the country.

In **Peru, Banco Agropecuario (Agrobanco)** rescheduled customer loans due to mature between February 15 and April 30, of 2020, for a 90-day period as a result of the health crisis. This measure was in conformity with the provisions enacted by the Office of the Superintendent of Banking, Insurance and PFAs (SBS).

In cases where longer periods were needed, provision was made for the bank to study each case with the customer and seek the best alternative for the small agricultural producers.

As for new loans to small agricultural producers, Agrobanco, the AgroPerú Fund and the Ministry of Agriculture (Minagri) jointly evaluated measures to avoid any interruption in the provision of food items from crop growing areas and to keep producers from being negatively affected by a reduction in the demand due to the quarantine. An example of such measures was the implementation by Minagri of mobile street markets.

As a result of this, Minagri revealed the establishment of a roughly US$177 million package of measures to revitalize agriculture and deal with the problems of the country's small producers in the context of a declaration of a 90-day health emergency created by the presence of the Coronavirus.

It also availed itself of some US$129.4 million with which to provide direct financing to small farmers. At the same time, through the Agroideas program, it was to allocate over US$19 million in non-refundable financing to producers for the purpose of establishing nationwide agricultural and livestock production projects. Another US$19 million from the Smallholder Financial Inclusion Fund (FIFPPA) was allotted to promote bank use, productivity and the establishment of cooperatives.

The Agroperú Fund was created in Peru in 2009 to establish credit risk coverage guarantees and direct financing guarantees for small producers grouped or organized into lawful associations. In this connection, it was agreed to reschedule Agroperú Fund loan debts, with the proceeds going to small rural producers, interest-free, for the payment of loan installments with maturity dates between February 15, 2020 and August 15, 2020.

The Agricultural Bank in the **Dominican Republic** adopted a series of measures to help producers mitigate the ill effects of the coronavirus emergency, among them by extending for between 60 and 90 days the terms for loans with maturities falling between March 18 and May 18. The same measure was applied to partial loan installment maturities. Customer credit ratings remained unaffected in all cases of overdue debt restructurings carried out over this period.

V. DEVELOPMENT BANKING AND SUPPORT TO SMEs DURING THE COVID-19 CRISIS[4]

Inasmuch as micro, small and medium enterprises account for 99.5% of the businesses in the Latin American and Caribbean (LAC) region and 60% of the formal jobs in the production sector, they were extremely important for the governments and for the public policies that were needed to be implemented, particularly in the context of the crisis unleashed by COVID-19 that threatened the survival of a large number of the SMEs.

The Economic Commission for Latin America and the Caribbean (ECLAC), in 2020, estimated that over 2.75 million formal enterprises in the region would close their doors –2.65 million being microenterprises and 98.7, medium enterprises--, with losses of 8.5 million jobs, not including job cuts by enterprises that continue to operate. The sectors hardest hit and in which losses of employment could be heaviest due to enterprise closures were wholesale and retail trade; other community activities, both social and personal; hotels and restaurants; real estate, entrepreneurial and rental activities; and manufacturing, in that order.[5]

4 A first version of this chapter was prepared by the online Conference "From Pandemic to Recovery: The Role of Development Banks in Tackling the Economic Crisis", organized by the VEB.RF – State Development Corporation of Russia / International Development Finance Club (IDFC), September 9, 2020.
5 Eclac (2020), Sectores y empresas frente al COVID-19: emergencia y reactivación, COVID-19 Special Report N°4. *https://repositorio.cepal.org/bitstream/handle/11362/45734/4/S2000438_es.pdf*

Drawing on information collected by the chambers of commerce, ECLAC drew attention to the fact that in Colombia, 96% of the enterprises saw their sales revenue decline and that 82% of the formal enterprises would be able to survive on their own resources for only one or two months. In Brazil, 76% of the industrial firms cut back on or stopped production and 55% had problems obtaining access to working capital loans. In Argentina, 44% of the industrial enterprises lacked the necessary liquidity to pay 50% of worker wages in April 2020, 38% were unable to pay their public utility bills, 48% could not pay their suppliers, and 57% paid no taxes. In Chile, 37.5% of the businesses cut back their staffs between April and May, and 44% were in a poor or critical financial position. In Uruguay, 59.4% of trade and service company employees had had to turn to unemployment insurance, and the situation was even worse in the hotel and lodgings and food services sectors (81.5%). In Panama, the sectors that saw the largest reductions in income were hotels (-99.4%), construction (-86.4%), restaurants (-85%), retail trade (-83.8%) and tourist services (-78.7%). In Central America, for its part, 50% of the businesses would need from four to nine months to recover their pre-crisis billing levels, while in the case of the microenterprises, seven to 12 months would be required.

The situation was somewhat similar in the countries of the Organization for Economic Cooperation and Development (OECD), where SMEs accounted for over 50% of employment and, what is even worse, the proportion of SMEs that were operating in the hardest hit sectors could have affected as much as 75% of the jobs. These sectors were transport manufacture, construction, wholesale and retail trade, air transport, hotel and lodging and food services, real estate, professional services and other personal services (such as, for example, beauty parlors and barbershops).[6]

The OECD, for its part, warned –backed by information taken from 41 surveys of SMEs across the world, -- that over half of them were facing heavy losses in income. One-third of the SMEs feared that they would be left without any support within a month's time and up to 50%, within three months. The Organization went on to add that information from other sources in several different countries had revealed that between 25 and 36% of the small enterprises could be forced to close their doors permanently as a result of their stoppage of activities during the first four months of the pandemic.

Along this same line, the International Monetary Fund (IMF), through its President, pointed out that "in some countries, more jobs were lost in March and April (2020) than had been created since the end of the global financial crisis," with SMEs being responsible for the greater part of this employment. For that reason, the governments' response was heavily targeted this sector. And she went on to add that "bankruptcies among SMEs could triple, from a pre-pandemic average of 4% to up to 12% in 2020."[7]

Development finance institutions, as public financing policy instruments, acted in keeping with government provisions in helping countries to mitigate the crisis by making resources available to the production and social sectors, and especially to SMEs that had experienced heavy losses in income and major problems in keeping up activities and complying with wage and financial obligations.

The measures implemented by the development banks to support the SMEs were diverse. In Chapter II can see with more details, here we present a summary of them. Among development bank cross-cutting measures associated with the needs of micro, small and medium enterprises, attention can be drawn to the following:

- **Allotment of new credit lines** to their cus-

6 *OECD (2020)*, Coronavirus (COVID-19): SME policy responses, Policy Responses to Coronavirus (COVID-19) Updated July 15. *http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/#blocknotes-d7e3559.*

7 *Kristalina Georgieva* (2020) La próxima fase de la crisis: Se necesitan nuevas medidas para una recuperación resiliente. July 16. https://blog-dialogoafondo.imf.org/?p=13795 tomers, with terms of up to 3 years and a maximum of one year of grace.

- **Postponement and deferral** of installment **due dates** in the cases of personal loans and loans to independent workers and to micro and small enterprises.

- **Temporary suspension of mortgage payments for home purchases**, altogether with the reduction of mortgage loan interest rates.

- Specific loans for acquiring **new technology** to equip people for **telework.**

- **Loan guarantees for micro and small** enterprises covering up to 100% of the loan amount.

- **Securities issuance guarantee** for SME debt instrument issues in the stock market.

- **Loans for the tourism sector**. Inasmuch as tourism was one of the most heavily impaired sectors, governments provided, as a contingency measure, for financial instruments to mitigate the effects in an effort to safeguard jobs.

- **Loan guarantees to support entrepreneurs** in the tourism and bars and restaurants industry, one of the sectors hardest hit, whose sales dropped for the most part to almost zero.

- **Expansion of the credit available** to micro, small, and medium enterprises (MSMEs) through bank and non-bank financial intermediaries.

- **Widening of the capital supply** to cover the everyday needs of the enterprises, by broadening the scope of existing credit lines.

- **Increase in contractual values** without any obligation to provide real guarantees, but only personal ones.

- **Automatic extension of microloan payments**. Only if a client was not interested in extending its payments did it have to notify the bank.

- **Relationships with national and international lenders**, to made it possible to postpone debt payments and immediately raise outstanding credit lines, so that funds already available for financing could be increased and channeled to bank borrowers.

- Some national and international development institutions were working with the governments **to create alternatives** for the programs to mitigate the effects of the Coronavirus. Both sought to reduce the damaging effects on public health and the negative consequences for the already impaired national economy. So, the provision of credit lines with special terms to help health enterprises of all sizes.

- **Establishment of working** groups and joint efforts with sector institutions and those serving entrepreneurs directly, altogether with public policy coordination, to protect enterprises so that the country could return to its economic development agenda as rapidly as possible.

- Assistance with the financing of professionals in the **creative economy**, who were among those most adversely affected by the necessary social distancing policy.

- **Assistance to export firms.**

- **Boosting of platform development and operation**, in order to link up enterprises with the markets.

- **Funding of financial intermediaries** to made possible to lengthen loan terms or provide longer grace periods to creditors.

- **Partnership with the Fintechs** as new channels of resource intermediation to MSMEs.

VI. HOW WERE DEVELOPMENT BANKS BEING FINANCED TO COPE WITH THE DEMAND FOR MORE FUNDS?

Confronted by a greater demand for loans, development banks were turning to different funding sources, as follows:

Emergency programs: public resources were channeled from government-fostered emergency programs.

Regional and multilateral organizations: Cooperation with institutions like CAF-Development Bank of Latin America, Fonplata-Development Bank, Caribbean Development Bank, Central American Bank for Economic Cooperation (CABEI), Foreign Trade Bank of Latin America, Inc. (Bladex) and Inter-American Development Bank (IDB) was very important in Latin America and the Caribbean for channeling resources with which to finance enterprises during Covid crisis.

Relaxation and progressive adaptation of Basle III implementation because of its pro-cyclical effect, with a view to limiting its negative impact on the delivery of short- and medium-term liquidity.

Relationships with national and international lenders, in order to made it possible to postpone debt payments and immediately raise outstanding credit lines, so that funds already available for financing could be increased and channeled to bank borrowers.

Issuance and tapping of resources by international commercial and extra-regional development banks. Banco de Desarrollo de Minas Gerais (BDMG), for example, signed a contract in early August 2020 with the French Development Agency (AFP) for the provision of €70 million as of that month and for a maximum term of 12 years. These funds were used in bank credit lines for enterprises of all sizes and municipal governments. Banco Regional de Desarrollo del Extremo Sur (BRDE) launched the second stage of international fund-raising by the French Development Agency (AFD), which had already made possible sustainable investments valued at €70 million possible in the three Southern Region states. Fideicomisos Instituidos en Relación con la Agricultura (FIRA), for its part, disbursed 10,000 million pesos (some US$448.5 million) in long-term debt through stock exchange trust certificates in order to channel credit to small rural enterprises. Banco de Comercio Exterior de Colombia (Bancoldex) received a US$400 million loan from a consortium of three commercial banks—Banco Santander, BBVA and JP Morgan-- with a World Bank guarantee provided through the Multilateral Investment Guarantee Agency (MIGA).

Capital contributions to development banks for the purpose of building up their lending capacity. BancoEstado de Chile, for example received US$500 million from the national government.

VII. DIGITAL MEDIA AND DEVELOPMENT BANK EXPERIENCES DURING THE COVID-19 CRISIS

Prior to the outbreak of the pandemic, the surge in new technologies, emergence of disruptive competitors and growing expectations among financial clients motivated many banks to reformulate and evolve their commercial and operating models in differing degrees. Those that invested in digital platforms and data analysis using appropriate tools and with suitable partners, were well-positioned to stand out and to see their importance increase in this new situation.

With the reduction of business hours and the temporary closure of some of their agencies due to the lockdown in most LAC countries, banks were receiving more client consultations and it was likely that this trend would continue to progress in the future. Over 86% of the development banks in a 60-bank sample took measures of this kind. Banco do Brasil, for example, added over 1.5 million new users of its BB App since March 2020[8] and interactions by means of Whatsapp rose 400%. Banks acted to deploy and escalate their labor force safely and effectively. In a matter of days, traditional client-bank relationship models were redesigned to put a stop to the contagion, inasmuch as some customers depended heavily on personal service and paper-based processes, as they struggle to remain ahead of client expectations and the new regulations. This situation made it possible to reveal the power of digital banking and the need to augment alliances with fintechs.

Banks moved rapidly during the crisis in order to digitalize and automate processes: carrying with them traditional methods for handling client relations –which had to be reworked— and the services provided in their branch agencies that many enterprises valued. Furthermore, in order to keep the pandemic from stifling their capacity to attract new customers and to invest in and lend new products, some banks decided to move rapidly toward the electronic incorporation of clients, dispatch of documents online and use of digital identification tools. It was expected that the need driving enterprises and families to turn to the use of digital methods would convince them to continue interacting with banks in that way, even when COVID-19 was brought under control. Banks that decided to join a digital ecosystem of platforms and service suppliers and to invest in digitalizing their services were quick to bring out new or complementary offerings and interact more securely with their customers.

Banco Provincia de Buenos Aires (Bapro), for example, announced the incorporation of the electronic check or "echeq" into the array of financial products it offered, thereby facilitating SME financing. The situation today is also permitting both banks and their clients to learn about digital channels. In Bapro's case, it enabled the bank to finish developing CUENTA DNI (NIC –National Identity Card-- ACCOUNT), its digital wallet that was not being fully used. As of the imposition of restrictions in response to the pandemic, it was decided to add new services and to promote its use as a tool for banking at a distance, thus enabling thousands of people to open accounts from their homes and to take out funds from automated teller machines without any need for a debit card. These possibilities made it an excellent alternative for roughly 500,000 non-bank user beneficiaries of the Ingreso Familiar de Emergencia (IFE) (Emergency Family Income), who were able to collect their allocations using their NIC ACCOUNTs. Since its launching on April 8th, 2020, over 1.6 million people have been able to open savings accounts with Banco Provincia's IFE "NIC Account" application; this is more than all new accounts opened in the country between January 2017 and March 2018. Some 550,000 people decided to use digital wallets that would also allow them to make purchases at shops, receive and send money instantly and recharge their mobile phones and transport cards.

Banco de la Provincia de Córdoba (Bancor) launched the "Orden de extracción" (ODE) (Withdrawal Order) system, allowing holders of accounts with cash balances to withdraw cash from the 400-strong network of biometric teller machines (400) in the provinces, with no need for a debit card. The system could also enable third parties to do the same thing using their own accounts. In that way, anyone could make a payment at a distance without having to make a deposit in another bank account (Infonegocios, 2020).

Banco de Desenvolvimento de Minas Gerais (BDMG), for its part, was one of the pioneers in Brazil in setting up a digital platform (BDMG Web) for granting loans to SMEs ten years ago. In order for BDMG to operate in this market, especially without having any physical branch agencies, it needed to be accessible via the Internet. The bank accordingly launched BDMG Digital, a loan commitment and client relations platform that would include the launching of an app for mobile telephones. The success of this initiative enabled the bank to move ahead in digitalizing

8 Figure calculated for the period of March 16, 2020 to the end of April of that same year, showing that BB now has 15.6 million clients that use this channel.

loan commitment processes with medium and large businesses. The Programa Nacional de Apoyo a Las Microempresas y Pequeñas Empresas (Pronampe) (National Micro and Small Enterprise Support Program) was one of the credit lines that can be operated through this platform. This line, designed to help small businesses cope with the pandemic-generated crisis, offers special market conditions: interest rates at 1.25% a year plus the Selic rate (basic reference interest rate that, at September 2, stood at 2.12%) and a 36-month term with 8 months of grace. In 2019, BDMG Digital disbursed more than US$43 million to MSEs, 10.5% more than the previous year, and 600 thousand acceded to the platform, raising that figure to 54%.

Since the beginning of 2020, with the difficulties imposed on municipal management by the pandemic, the bank provided city governments with some US$50 million in financing through the Aviso Público de Municipios (Public Notice to Municipalities). According to BDMG, this sum was 37% larger than the originally forecast for 2020. The addition of other credit lines brought the number up to over US$56 million larger. Furthermore, in April 2020, the bank launched low-interest credit lines to serve MSMEs during the pandemic. Since that date, over US$33 million in loans have been disbursed. This figure was 91% larger than lending over the same period of 2019. These fund-channeling levels, which were higher by far than those of past years, were made possible by the increased benefits of the BDMG digital platform (www.bdmg.mg.gov.b r), which granted online loans to micro and small enterprises and to municipal governments. From now on, it is not necessary to visit the bank in order to properly prepare projects and bidding documents for scheduled competitions. Furthermore, the steps for monitoring the works (measurements) and any additional element could also be taken in their entirety through the Internet, making the process one that is 100% online.

Banco do Nordeste (BNB) offered another noteworthy experience in Brazil. Its digital transformation approach was based on digital collection of data and omnichannel provision grounded in investment resting on three pillars: restructuring of internal processes, transformation of the employee culture, and client participation in the new service channels. Customer use of digital channels today already predominates in BNB transactions, accounting for over 52.5% of the total. For each digital service or product developed by the Bank, processes were redefined, and changes made. Employees were given training to make them open to innovation and the large volume of new developments involved.

Agile methodologies were used to create and implement products and services. Clients looked for continuous and rapid improvement and inasmuch as the Bank serves a varied range of clients: MSMEs, large enterprises, subnational governments, large and small rural producers and individuals, each segment required an appropriate relationship, and the digital services are constructed in light of the expectations of the public. The digital solutions delivered varied accordingly, such as digital registration of individuals and enterprises, the opening of digital accounts, applications (BNB, BNB Cartoes, BNB Agro and BNB Geo), card-free withdrawals, concession of digital working capital, BNB card payments using barcodes, and online concession of personal loans, among others. One of the products unveiled was Oficina Digital (Digital Office), which offered clients digital service and in which communication is via telephone, WhatsApp and chats. Use of this product was expected to serve nearly 170 thousand MSEs throughout Brazil's Northeast, in addition to 500 thousand individuals who are customers.

In 2020 alone, the program was able to sign contracts for some US$568 million in new operations. Given Crediamigo's strong bubble-up effect in the Bank's area of operations, the nine states in the region and northern Minas Gerais and Espirito Santo, BNB offered its clients remote service (Crediamigo application available for Android telephones) and alternative channels (24-Hour Banking and Saque Pague, (Withdraw and Pay), among others, to avoid trips to bank agencies or lottery ticket stores.

Banco Nacional de Desenvolvimento Economico e Social (BNDES) was another Brazilian institution, which, as part of its entrepreneurial digitalization project, completed a three-year implementation plan for digitalizing technology initiatives. This project centers on improving client experience and facilitating access to financing solutions. In recent years, some initiatives have been implemented, like Canal MPME (MSME Channel), Portal do Cliente (Customer Portal), BNDES online, and BNDES Garagen (BNDES Garage). MSME Channel is a digital platform that offer more transparency and agility in linking up MSMEs interactively with financing and service solutions. An algorithm is used to match the supply and demand for loans that identifies the three financial agents that are best suited to each credit applicant's profile. By September 2019, the platform had signed loan contracts for over US$180 million, approved more than 3,000 loan applications and interconnected with three fintechs.

Caixa Econômica Federal, for its part, was moving ahead with the plan to create 45 million digital accounts in order to shorten lines at its branch agencies for Brazilians who were given pandemic emergency assistance.

The BNDES Online platform, launched in 2017, interconnects the automated systems of the bank with those of its financial agents. It can be used to transmit applications for financing, thereby producing improvements in the efficiency, speed and security of transactions. In 2018, more than 109,000 operations were recorded, totaling over US$2,200 million. For its part, the Client Portal dating back to 2018 was designed to bring together the various systems used by its customers. With the resulting improvement in the organization of information, a duplication of efforts and operating risks were avoided.

BRDE has been working hard since 2019 to digitalize most of its processes, cut back on bureaucratic red tape and accelerate the answers to questions asked of the bank. A series of improvements have been made in its Internet banking, an online system that allows the Bank's customers to monitor all of their applications and opens the possibility for new applicants to send in their documents and certificates by digital means. The project was expected to be 100% complete in 2021, but because of the difficult situation created by the new coronavirus, its completion was moved ahead. Had that not been possible, the Bank would have had more problems in providing rapid answers and solutions to the queries of questioners who looked to BRDE as an alternative in the middle of the crisis.

Also, among the foremost institutions that were well-positioned is Banco del Estado de Chile, which in 2016 started the growing migration of its operations from channels handled by human beings to digital channels. It even went so far as to establish the Digital Innovation and Transformation management divisions in a clear sign of the importance given to digital disruption. The aim of these new management divisions was to transform the institution, from its processes to the channels it uses. Digital solutions supporting its clients emerged, like the BancoEstado application targeting personal banking; Factoring online, which offers speed and ease of the service in real time; ComprAqui (Buy Here), the new mobile POS payments service in use throughout 95% of Chile; and Cuenta RUT (RUT Account), a financial product that has made it possible to bring a large number of Chileans into the financial system. Over 2019, more than 7 million clients made use of some of the bank's digital channels, either its website or its application. Specifically speaking, more than 4.6 million clients have used the App and 3.5 million on average use the App every month.[9]

Banco Agrario de Colombia launched the MoviCuenta application that makes it easy to open a savings account, thereby enabling rural and city dwellers to open their accounts digitally on their own, thus avoiding processing and paperwork. Between its startup this past April 13th and the end of May 2020, it accumulated 134,226 users, most of whom belong to the Jóvenes en Acción (Youth in Action) program.

9 Latam Digital Bank (2019. Digital Trends: La revolución de los medios de pago de BancoEstado. Latam Digital Bank Magazine. November. pp. 9-13. *http://www.digitalbankla.com/wp-content/uploads/2019/11/Revista-Digital-Trends022019.pdfz*

In Central America, Banco Nacional de Costa Rica pioneered BN Internet Banking in 2001 and has been operating Banca Móvil (Mobile Banking) since 2014. At the close of 2019, use of its mobile applications and Sinpe Móvil produced revealing growth figures. The BN application, Mi Banco (My Bank), is attracting greater customer loyalty day-by-day, with growth of 16% in transactions, 24% in affiliations, and 14% in active users of the channel. Sinpe Móvil (which turns your telephone into an electronic wallet) showed growth of 57% in transactions of all kinds, 40% in affiliations, and 62% in active channel users. BN Servicios (bank correspondents) produced 580 new operators of a modality that has made banking services immediately available across the entire country. Over 2020, boosted by the pandemic, monthly digital transactions rose 120%, from 671,471 in January to 1,479,719 in June, according to the Bank.

To conclude, Banco de la República Oriental del Uruguay (BROU), altogether with Antel, facilitated the delivery of emergency food assistance baskets through the Tuapp application under development, but capable of being put into practice in record time, to facilitate delivery of basket vouchers to more than 110,000 beneficiaries, who exchanged the money accredited in the electronic wallet for essential products in more than 1,900 authorized shops across the country.

VIII. WHAT'S NEXT: LOOKING AHEAD?

In short, these were but some of the measures carried out by development banks, which, as was expected they continue, day-by-day, heed the course of economic and social events, in order to take the measures that are deemed necessary, appropriate, and effective in confronting the crisis. The final aim was to ensure the well-being of the enterprises and of Latin American society as a whole.

With this purpose in mind, and in order to help the entrepreneurs, the development banks are committed to taking swift action in making resources available to both individuals and enterprises, particularly MSMEs and lower-income sectors. It is the role of development banks to act counter-cyclically during economic downturns by adopting simple, rapid, and effective alternatives, as well as supporting the recovery and economic transformation in the post-crisis period of Latin American countries.

The immediate aim, in addition to continuing with their actions, is to provide families and the business sector with liquidity. Resources allocated by the government are transferred through social assistance programs particularly to the most vulnerable enterprises and those with less economic backing with which to weather a crisis as serious as the one we confronted. They are moving ahead to the next phase, which is to structure financing facilities for assisting businesses, particularly SMEs, with their economic recovery.

Development banks cannot do this on an individual basis but must join in coordinated efforts with other national financial institutions and regional and multilateral lending organizations. This will make it possible to complement the funding structure of existing financial intermediaries, both local and international, so that they can implement short, medium, and long-term programs.


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