

# Key findings

## Counter-cyclical Responses: How Development Banks helped the Covid-19 Recovery, and Lessons for the Future”

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### Objectives and research questions

The objective of this paper is to shed light on the crucial and varied counter-cyclical roles played by development banks across the globe during the COVID-19 pandemic, and lessons learned for future shocks. The paper presents new and original information and analysis of how these banks helped countries firms and households cope with the shock of ‘sudden stop’ to the normal functioning of the economy. It identifies key factors determining banks’ different and various responses, including not only acuteness of clients’ need but also the degree and nature of the development bank’s capitalization, links with existing national strategies or plans, its mandate, its ability to innovate, partnerships with other banks, historical experience and degree of political support. Different modalities of responses as well as their degree can be attributed to these factors.



### Methods

The paper uses empirical evidence, case-study analysis and findings from a large number of in-depth interviews with senior officials of development banks at the national, regional and multilateral level.



## Results and recommendations

The paper concludes that for counter-cyclical support to be most effective, development banks needed to be able to respond at speed, at scale and with flexibility. One implication from these findings includes the need for these banks to be well capitalized during good times so as to be prepared for future crises. This made the difference between banks that could scale up massively, and those that had to leave unsupported key sectors of the economy. The paper shows various means of doing this.

Another is that low-income countries with limited fiscal space to respond to crises, either financial or ones like COVID, need to be supported by the international community, including through capital, credits or guarantees. Different banks and countries found varied modalities to do this. One important additional source that hopefully can be implemented soon is the channeling of a part of the SDRs that will be re-distributed from richer to poorer countries.



Another pertinent lesson concerns the need for more information about non-performing loans, resulting from the Covid crisis. This has important implications for future external shocks. In conclusion, the paper finds that the large majority of development banks made a big effort to respond to the unexpected challenge thrust upon them by the pandemic; there is a need to help support those not sufficiently well placed to respond.