Responses of Latin American Development Banks

to the economic crisis

ALIDE

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1st. edition: June 2020

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Publication:
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www.pxhere.com

A first version of this document was prepared at the request of the World Bank, which was published as "The Latin American Development Bank Facing the Economic Crisis generated by Covid-19". Watch here: https://bit.ly/2AAcFWw

Introduction

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

In the April "World Economic Outlook" Report itself, the IMF maintains 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. The Fund's current estimates project a contraction of the world economy of -3% and -6% if the current situation continues throughout the year, and an additional -6% if it goes until 2021. If the picture does not worsen, there could be, in 2021, a jump in growth of 5.8%. For Latin America and the Caribbean it is estimated -5.2% in 2020 and 3.4% in 2021.

1

Measures taken by the development banks

MEASURES TAKEN BY THE DEVELOPMENT BANKS

The measures taken by the development banks are 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 has been given significant attention, unlike the case in past crises; this means the enterprises or institutions that provide health services and companies that produce health supplies, as well as technological solutions for monitoring and controlling COVID-19.

This crisis constitutes a major challenge to economic policy-makers and particularly to our development finance institutions, as the countries' financial policy instruments. Development banks are revealing 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 is in this context that the presence and actions of development banks, as agents of public financing policy, take 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 have had to help countries mitigate the financial crisis by making larger amounts of resources available to the production and social sectors. In that way, the financial institutions have 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 to do so. At the same time, they have 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).

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CROSS-CUTTING MEASURES TAKEN BY DEVELOPMENT BANKS

The measures taken by the development banks in keeping with government stipulations are 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 are 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 are the following:

1

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 are generally set in accordance with the size of the payroll and the working capital needing financing.

2

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 range up to three years and the interest rates are lower than those charged for the original loans. In some cases, the interest is partially subsidized by the state on a temporary basis.

Banco Nacional de Costa Rica (BNCR) expected in March alone to readjust the repayments of 107,305 loans. In Paraguay, Agencia Financiera de Desarrollo (AFD) hopes 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 alone.

3

Temporary suspension of mortgage payments for home purchases,

together with the reduction of mortgage loan interest rates. By way of example, Caixa Económica Federal (CEF), Brazil's foremost mortgage bank, offers 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) has 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 have not been extended are granted an additional loan term of up to 12 months, while in the case of bridge loans that have been extended one or more times, the additional extension is six months. As for Banco Hipotecario del Uruguay (BHU), the institution decided to reduce by 50% the May mortgage payments for all of its customers with outstanding mortgage loans and promise to purchase agreements.

4

Specific loans for acquiring new technology

to equip people for teleworking.

5

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 offers 25% loan coverage to medium and large enterprises. Peru expects, 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 hold individual Fondo Nacional de Desarrollo (Fonade) guarantees covering 90% of their loans. Peru has also created the Fondo de Apoyo Empresarial a las MYPE (FAE-MYPE) (MSE Support Fund), administered by Corporación Financiera de Desarrollo (Cofide), providing coverage ranging from 90 to 98% of the loan amount. This can be 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 has tripled the Fund's potential.

6

Securities issuance guarantee

for SME debt instrument issues in the stock market.

7

Loans for the tourism sector

In as much as tourism is one of the sectors most heavily impaired, governments have 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) is authorized to grant each applicant up to 10 times its monthly payroll, which is to be repaid in a single capital and interest payment at the end of the loan term, with a grace period of 12 months.

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8

Loan guarantees to support entrepreneurs

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

9

Expansion of the credit available to micro, small, and medium enterprises (MSME)

through banking and non-banking financial intermediaries.

10

Widening of the capital supply

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

11

Freezing and opening of new financing lines for state, provincial or municipal

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 have been taken in Brazil.

In Colombia, Financiera del Desarrollo (Findeter) grants 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 is necessary for the territorial entities obtaining those loans to comply with borrowing regulations. The resources are to be invested in transportation, health, housing, education, energy development, drinking water and basic sanitation, among other areas. The rediscount credits enjoy long terms, grace periods and favorable interest rates. "The funds are intended for use in financing investments and working capital in the public and private sectors at a moment when liquidity is paramount for facing up to the challenges and needs created by COVID-19.

12

Increase in contractual values

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

13

Automatic extension of microloan payments.

Only if a customer is not interested in extending its payments does it have to notify the bank. A case in point is Banco do Nordeste de Brasil (BNB)'s Crediamigo Program. The bank currently serves 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 enjoy 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 can be increased and channeled to borrowers from banks.

Some national and international development institutions in Brazil and their association, the Brazilian Development Association (ABDE), are working with the federal and state governments to create alternatives for the programs to mitigate the effects of the Coronavirus. Both seek 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 are 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 aims 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, can offer direct loans at compensated interest rates to finance projects for that purpose. Entities seeking to obtain such loans must also certify that these loans will be used to finance projects to fight COVID-19.

14

Establishment of working groups

and joint efforts with sector institutions and those serving entrepreneurs directly, together with public policy coordination, to protect enterprises so that the country can return to the economic development agenda as rapidly as possible.

Assistance with the financing of professionals in the creative economy, who are among those most adversely affected by the necessary social distancing policy. The spaces where creative industries have operated have 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, have 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 offers an example of this.

15

Opening of savings accounts

for all persons needing to receive government vouchers (bonos de ayuda) for families without any income, either because they are living in poverty, have lost their jobs, or have 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 will provide roughly US$53.34 million in non-reimbursable funding. The recipients will be 200 small and medium enterprises with export potential that are working in the agricultural, food, industrial and service sectors. The support of technical personnel will be facilitated, so that the chosen enterprises can enjoy the

financial and commercial coaching of advisers to overcome the crisis and strengthen their operations. The non-reimbursable funds can be used to purchase production supplies, rent machinery and for the partial payment of wages and salaries. They cannot, 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 is 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 is being managed by Cofide. This fund offers coverage for loans to MSME and export firms for fixed capital investments or working capital.

16

Progressive adaptation of Basle III

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

17

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 will have access to and highlight a venue for collaboration in which the smallest enterprises can promote their efforts and get in contact with all of their potential customers, in the expectation of increasing their sales.

18

Funding of financial intermediaries

Nafin and Bancomext manage a program of roughly US$2,523 million in Mexico through financial intermediaries, to contribute to enterprise liquidity. This program makes it possible to lengthen loan terms or provide longer grace periods to creditors. New loans are 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 make 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).

19

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.

20

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 register with the BNDES online credit application platform. They will start 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.

2

ALIDE and the transfer of knowledge and specialized information

ALIDE AND THE TRANSFER OF KNOWLEDGE AND SPECIALIZED INFORMATION

Governments in the region, together with their development finance institutions, are taking a series of measures to offset the adverse effects of the crisis produced by the COVID-19 pandemic. All of the countries are working to develop tools and financial instruments and to find out what other countries and institutions are doing to help their customers.

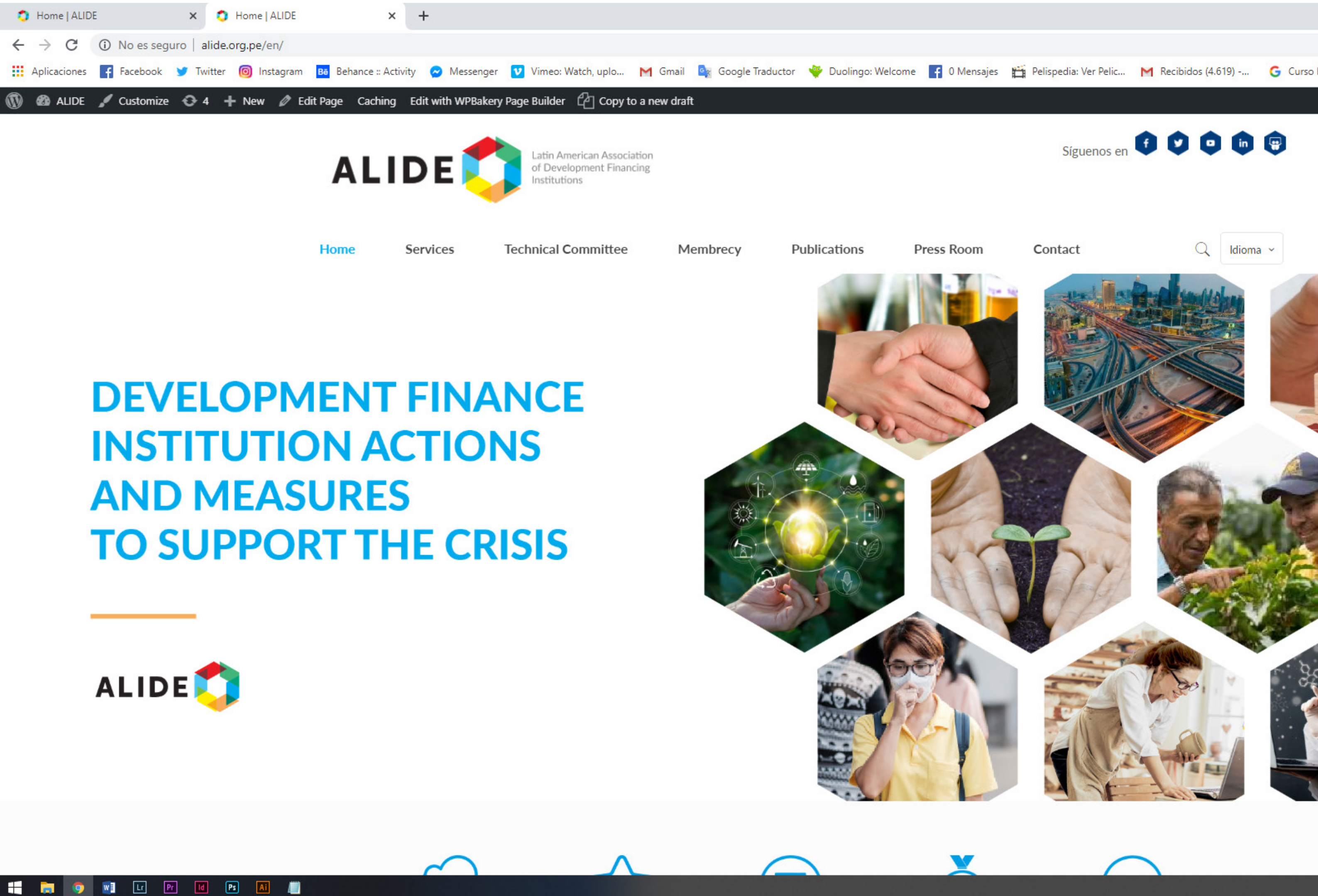
For that reason, we in ALIDE have been asking our members for information and have been processing data identified from other sources to create the most complete and up-to-date database possible and make it available to interested parties at a single spot on our website. We also give weekly reports to our community of development finance institutions.

ALIDE is a participant in the SAFIN Network belonging to the International Fund for Agricultural Development (IFAD), both an international financial institution and a specialized United Nations agency that reports and on occasion orients institutions toward better study and financing of agricultural and rural development.

Development Bank Observatory in dealing with the crisis

In ALIDE's website, we have created THE OBSERVATORY of the specific efforts and measures of multilateral and regional organizations and development finance institutions to help the production and social sectors cope with this crisis (http://www.alide.org.pe/acciones-de-la-banca-de-desarrollo-frente-a-la-crisis/).

Reports, notes and contributions of development banks are collected in this observatory with regard to actions being taken to mitigate the crisis.



Smallholder and Agri-SME Finance and Investment Network (SAFIN)

This is an inclusive partnership of actors operating in different parts of the ecosystem for purposes of investment in agri-food and rural small and medium enterprises (SME), with a focus on access to financing and complementary services.

At present, the network is being coordinated by a team from the International Fund for Agricultural Development (IFAD) and consists of more than 30 institutions from the private, public, and philanthropic sectors, among them governments, different types of financial suppliers and intermediaries, development banks, and farmers' organizations.

ALIDE participates actively in the SAFIN Network through its involvement in virtual forums and meetings and by exchanging viewpoints and providing information and occasionally guidance to institutions for better study and financing of the agricultural and rural sector.

We continue to look to the future

In short, these are but some of the measures carried out by development banks ,which, as is to be expected will, 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 is 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 MSME and lower-income sectors. It is the role of development banks during economic downturns to act counter-cyclically by adopting simple, rapid, and effective alternatives.

The immediate aim is to give families liquidity by transferring resources allocated by the government through social assistance programs, to them and to the business sector, targeting above all the enterprises that are most vulnerable and have less economic backing with which to weather a crisis as serious as the one we are confronting today.

The development banks cannot do this on an individual basis, but must join with the other national financial institutions and regional and multilateral lending institutions in coordinated efforts. In this way, it will be possible to complement the funding structure of existing financial intermediaries, both local and international, thus making it possible for them to execute short, medium, and long-term programs.

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