Development Banking and Support to SMEs

during the Covid-19 crisis

ALIDE

DEVELOPMENT BANKING AND SUPPORT TO SMEs DURING THE COVID-19 CRISIS

September 2020

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Publication:
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www.pxhere.com

Prepared on the occasion of 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 and International Development Finance Club (IDFC), on September 9, 2020.

Introduction

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 should be extremely important to the governments and for the public policies that need implementing, particularly in the current context of the crisis unleashed by COVID-19 that threatens the very survival of a large number of the SMEs.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that over 2.75 million formal enterprises in the region will 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 are 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.[1]

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% have 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, 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 will need from four to nine months to recover their pre-crisis billing levels, while in the case of the microenterprises, seven to 12 months will be required.

The situation is somewhat similar in the countries of the Organization for Economic

1 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

Cooperation and Development (OECD), where SMEs account for over 50% of employment and, what is even worse, the proportion of SMEs operating in the hardest hit sectors can affect as much as 75% of the jobs. These sectors are 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).[2]

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 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 has 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."[3]

Development finance institutions, as public financing policy instruments, act 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 have experienced heavy losses in income and major problems in keeping up activities and complying with wage and financial obligations.

2 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.

3 Kristalina Georgieva (2020) La próxima fase de la crisis: Se necesitan nuevas medidas para una recuperación resiliente. July 16. https://blog-dialogo-afondo.imf.org/?p=13795

1

General government actions and measures

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 are based on broadening or refocusing budgets, while others favor accepting new debt, suspending foreign and domestic debt payments; monetary issue; and programs to support production sectors and/or that would 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 have been 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 keep the economy afloat, namely transportation, fuel, banks, etc.

Unlike the case in past crises, this time the private sector is also taking action, though not on a large enough scale or with the characteristics and scope of that of public and development banks. This is so much so that public banks have been given a major role in upholding credit, providing liquidity, and short- and long-term financing. In point of fact, governments in the region have taken 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 have national development finance institutions as their creators and executors, in cooperation with local financial systems and regional and multilateral financial organizations.

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.

2

Development banks under pressure from loan demands

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 the year, 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 is 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 the year, 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 this year alone, granted R$17,200 million (US$3,172 million) to enterprises of all sizes. This sum is 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 have already benefited 171,000 enterprises with 5.2 million employees and workers, of which 99.7% are micro, small or medium-sized businesses.

At the global level, **Banco Regional de Fomento del 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

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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) had disbursed over 3.4 billion pesos in loans (US$921.6 million) at June, and by all indications disbursements will reach 12 billion pesos (US$3.252 million) by the end of this year, 23.7% more than the 9.7 billion (US$2,629 million) that had been projected for the financial year.

In the first semester of this year, **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 this 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, 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. **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.en el periodo de enero a julio registró más de R$600 millones (US$110.7 millones) en operaciones de crédito, volumen 60% superior al del mismo período de 2019.

3

Development bank measures and support for SMEs

DEVELOPMENT BANK MEASURES AND SUPPORT FOR SMES

The measures taken by 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 received significant attention, unlike the case in past crises; this means 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 offers 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 an ongoing of income distribution policy.

Development banks, in the immediate term, have had to help countries mitigate the financial crisis by making larger amounts of resources available to the production and social sectors. In doing so, 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 in order to provide them with more plentiful resources; granted guarantees for bonds issued by enterprises; provided infrastructure funding; renegotiated debts and extended loan 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 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 stemming 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.

Among development bank cross-cutting measures associated with the needs of micro, small and medium enterprises, attention can be drawn to 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 payroll size and 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 MSEs, drawing for that purpose on funds in the neighborhood of some US$93 million (to renegotiate 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 period 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 **telework**.

5

Loan guarantees for micro and small

enterprises covering up to 100% of the loan amount (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 (Reactivate Peru) 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 Business 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 benefited. 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.

Loans for the tourism sector.

7

Inasmuch as tourism is one of the most heavily impaired sectors, 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.

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 and six months of grace.

9

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

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.

12

Automatic extension of microloan payments

Only if a client 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 (Friendly Credit) 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. Its financial product applies to 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 raise outstanding credit lines, so that funds already available for financing can be increased and channeled to bank borrowers.

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 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 to 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 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 they will be used to finance projects to fight COVID-19.

13

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 its 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. Spaces in which 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.

Assistance to export firms

14

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.

Assistance to export firms

15

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 will be able to 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 payment of the salaries of management or legal representatives, payment of debts, purchase of machinery or 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 Fondo Crecer (Growth Fund), which is being managed by Cofide. This fund offers coverage for loans to MSMEs and export firms for fixed capital investments or working capital.

16

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 SMEs 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.

In Costa Rica, the Ministry of Economy, Industry and Trade has 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 is 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 can 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.

17

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 position of borrowers. These guarantees cover 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).

18

Fintechs as new channels for resource intermediation to MSMEs.

With the authorization of the National Monetary Council, Banco Nacional de Desarrollo Social (BNDES) began to transfer funds through financial technology service enterprises. Fintechs register with the BNDES online credit application platform. They will start operating supplied with Bank resources, thus heating up the competition in this market and helping the money reach those in need. The benefits of this initiative, according to BNDES, are: financial inclusion of enterprises experiencing problems in obtaining loans, deconcentration of banks, competitiveness in the financial sector, innovation, entrepreneurial empowerment, and more efficient financial resource distribution.

4

How are development banks being financed to cope with the demand for more funds?

HOW ARE DEVELOPMENT BANKS BEING FINANCED TO COPE WITH THE DEMAND FOR MORE FUNDS?

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

● **Emergency programs:** public resources have been 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) is very important in Latin America and the Caribbean for channeling resources with which to finance enterprises during crisis situations like the present one.

● **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 make it possible to postpone debt payments and immediately raise outstanding credit lines, so that funds already available for financing can 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 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 will be 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 in the past made 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.

5

Digital media and development bank experiences during the COVID-19 crisis

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, are now 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 are receiving more client consultations and it is likely that this trend will 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, has added over 1.5 million new users of its BB App since March[4] and interactions by means of Whatsapp rose 400%. Banks are acting 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 still depend heavily on personal service and paper-based processes, as they struggle to remain ahead of client expectations and the new regulations. This situation is making it possible to reveal the power of digital banking and the need to augment alliances with fintechs.

Banks had to move 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 value. 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 have decided to move rapidly toward the electronic incorporation of clients, dispatch of documents online and use of digital identification tools. It is hoped that the need driving enterprises and families to turn to the use of digital methods today will convince them to continue interacting with banks in that way, even when COVID-19 is brought under control. Banks that decide to join a digital ecosystem of platforms and service suppliers and to invest in digitalizing their services will be able to rapidly bring out new or complementary offerings and interact more securely with their customers.

4 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.

Banco Provincia de Buenos Aires (Bapro), for example, announced the incorporation of the electronic check or "echeq" into the array of financial products it offers, 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, 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 can also enable third parties to do the same thing using their own accounts. In that way, anyone can 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 eight 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 will include the launching of an app for mobile telephones. The success of this initiative enabled the bank to move ahead in digitalizing 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) is 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 the year, with the difficulties imposed on municipal management by the pandemic, the bank has already 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 is 37% larger than that originally forecast for 2020. The addition of other credit lines brings the number up to over US$56 million larger. Furthermore, in April, the bank launched low-interest credit lines to serve MSMEs during the pandemic. Since that date, some US$33 million in loans have been disbursed. This figure is 91% larger than lending over the same period of 2019. These fund-channeling levels, which are higher by far than those of past years, were made possible by the increased benefits of the BDMG digital platform (www.bdmg.mg.gov.br), which grants online loans to micro and small enterprises and to municipal governments. From now on, it will not be 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 can also be taken in their entirety through the Internet up until June, making the process one that is 100% online.

Banco do Nordeste (BNB) offers another noteworthy experience in Brazil. Its digital transformation approach has been 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 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 look 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 requires an appropriate relationship and the digital services are constructed in light of the expectations of the public. The digital solutions delivered vary 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. The most recent product to be unveiled is Oficina Digital (Digital Office), which offers clients digital service and in which communication is via telephone, WhatsApp and chats. Use of this product is 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 has been 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 offers 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) is 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, is moving ahead with the plan to create 45 million digital accounts in order to shorten lines at its branch agencies for Brazilians who are 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 look to BRDE as an alternative in the middle of the crisis.

Also among the foremost institutions that are 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 on line, 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 the past year, 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.[5]

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 13 and the end of May, it accumulated 134,226 users, most of whom belong to the Jóvenes en Acción (Youth in Action) program.

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

5 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.pdf

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. This year, 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)**, together 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 thousand (?) beneficiaries, who exchanged the money accredited in the electronic wallet for essential products in more than 1,900 authorized shops across the country.


HSBC

What's next: Looking Ahead

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 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.

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 are confronting today. 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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