ALIDE 2020 GENERAL ASSEMBLY

BUILDING SUSTAINABLE AND RESILIENT
RESPONSES TO THE COVID-19 CRISIS
LATIN AMERICA & THE CARIBBEAN

TOWARDS A GLOBAL SUMMIT OF DEVELOPMENT BANKS

E- EVENTS: OCTOBER 7, 9, 13 & 15

CONCLUSIONS AND RECOMMENDATIONS

- We are not an island; we are part of an interconnected global community.
- Need to rethink international cooperation and multilateralism.
- The answers should be capable not only of attracting funds, but also of channeling those resources toward the financing of sustainable investment.
- Transformation of the production system is essential, because a greater transformation is already underway.
- Financing is a great driver of change.
- In response to the crisis, it is necessary to acknowledge how essential development banks are for the world's reconstruction.
- This is the time for all financial institutions to do their very utmost, to rethink their responses and their forms of action.
- The pandemic is impacting each region differently. It shocks people, countries and continents asymmetrically.
- Latin America and the Caribbean were already experiencing a crisis before the COVID-19 outbreak, and what the pandemic does is to worsen it.
- Maintaining expansive fiscal policies is necessary not only for economic revival, but because the short term will affect the medium and long terms.
- In all continents of the world and in which women have not been completely integrated into the countries' economic activity, the possibility of acquiring resilience will remain weak.
- Work is on reinforcing productive and social infrastructure, inasmuch as many of the gains in development are being destroyed or lost as a result of the crisis.
- National development banks should be poised to take action and be in continuous evolution.
- From rediscount operations to direct service.

- Support to local governments for projects that had been suspended because of their lower returns, as well as for new investment projects.

- Its strategy focused on digital transformation and was accelerated to meet the customers' needs.

- How can the situation be profitably used to create incentives and reduce informality, now that the benefits of formal employment have been revealed?.

- Private banks normally favor the short term, while national development banks focus on the long term, with financing for investment and modernization.

- Latin America and the Caribbean are a region that is extremely active in the integration of environmental, social and governance (ESG) criteria.

- Recognition of the importance of integrating ESG criteria into business operations has made the bond market important.

- There is another important aspect of the green bonds market: it is a great help for the issuance of social bonds and for other types of thematic bonds.

- The efforts of development financing institutions, for the future, is associated with long-term social returns and the commitment to good corporate ESG practices.

- The growth of inequality and the sizeable drop in employment have largely to do with the situation of SMEs in Latin America and the Caribbean.

- SMEs have been at the center of the COVID-19 pandemic gradual transit from crisis and rescue management policies toward structural policies for promoting long-term entrepreneurial growth, competitiveness, and resilience.

- While policy measures differed, the instruments were similar.

COOPERATION AND MULTILATERALISM FOR SUSTAINABLE DEVELOPMENT

1. **We are not an island; we are part of an interconnected global community.** The crisis, because of its deeply-rooted and lasting effects on the planet that reflect the weaknesses of our societies, bring into question the existing development model and prove the existence of social inequalities, demands the interconnection of the different sectors. It opens up the opportunity for us to bring about major transformations that will have lasting effects. Therefore, we must undertake this reconstruction in a better and more just and equitable way that leaves no one behind. **Our recovery must not only be financial, but also inclusive and sustainable.**

2. The **advancement and promotion of sustainable and inclusive development calls for an active public policy and a strong State** and in which the public banking system plays a key role. Growth in which market forces are left to determine the dynamics of development is not sufficient; public policies are needed to orient the flow of investments. National efforts alone in this terrain are not enough; coordination is needed among multilateral and global forces. For that reason, reactivating multilateralism and international coordination occupy a central place on the global development agenda.

3. **Latin America and the Caribbean, like the middle-income economies, need international cooperation and multilateralism.** Reaching a certain per capita income level does not mean that a country is able to move ahead on its own towards development. Countries require cooperation and Latin America and the Caribbean are no exception. Many of the region's countries, in order to broaden their capacity for action, require debt relief measures and structured negotiations so that they can channel those resources towards investment and create a positive growth momentum.

4. **Multilateral development banking, international organizations and many other international actors should share their experiences in order to deal with the crisis** and build a new system of international cooperation. Cooperation does not consist of a country's granting resources to a project and then controlling how they are used. The cooperation we require to be able to confront COVID-19 requires building synergetic responses and an interconnected system. A renewed international cooperation resulting from joint and coordinated efforts is needed, with strengthened international organizations.

5. In this context, **organizations like ALIDE and broad initiatives must be integrated into a global vision.** A noteworthy effort is the project boosted by the European Union that transcends COVID-19, under the Team Europe concept which combines the efforts of all participants, both public and private. Thus we have the Summit of development banks "Finance in Common," where development finance institutions will share their visions and experiences in order to open the way toward sustainable and inclusive economic and financial recovery. The advantage of this summit is that it creates a synergetic capacity for the exchange of knowledge among equals in confronting the challenges raised by the crisis.

THE GLOBAL RESPONSE TO THE CRISIS

6. The experiences with, and impact of the responses to, the COVID-19 crisis at the global level can be described as follows: 1) Early efforts to stem the outflow of liquidity from both institutions and financial markets took the form of asset purchases and swap lines with 14 central banks; 2) Rescue: programs to safeguard SMEs and the hardest hit key industries; 3) Recession: Fiscal policies took on growing importance for alleviating the situation created by declining demand, as did macroprudential policies –like the temporary easing of financial system regulatory provisions-- as concerns banking capital requirements and changes in bankruptcy regulations to favor debtors. Keeping the banking system healthy so that it is able to help during the next phase and ensure that the emerging markets are sufficiently equipped to sustain their economies; 4) Recovery: Promotion of economic recovery after successful management of the infection rate, with help in boosting household demands and promoting job creation.

7. **Public health measures are essential for enabling countries to progress from recession to recovery.** Korea, for example, limited the pandemic's impact on the labor market by taking rapid control of the infection rate by means of proactive public health measures while, at the same time, providing income support to the most vulnerable households. This enabled the country to avoid closing down its economy. At the same time, its support for individuals and households has constituted a key element of its policy responses during both the recession and recovery phases. Chile and Peru, for example, have focused their efforts on providing assistance to vulnerable households and unemployed workers, as well as on preventing further job destruction. **These efforts have been hampered, however, by institutional weakness, the high level of labor informality, and the lack of records and service channels.**

8. Unlike previous crises, on this occasion the responses of emerging markets included central bank **asset purchase programs**. The stated aim was to avoid potential adverse effects on financial stability and the deterioration of monetary policy transmission channels. The United States, for example, rapidly implemented these programs in March, basing its response on the country's experience during the 2007-2009 global financial crisis. The lessons to be learned from this response are that: 1) a balance is needed between encouraging participants to reenter the market and minimizing the central bank's risk; 2) the response time is crucial for resolving liquidity problems; 3) it is necessary to make sure that the central bank does not undermine the appropriate operation of the target markets.

9. Investment is crucial in the case of sustainability. Adequate answers must be found in that case to questions like: What will be invested and how? Which are the most recommendable technologies given the needs of the planet and climate change? The answers should **be capable not only of attracting funds, but also of channeling those resources toward the financing of sustainable investment.** The region's capacity for acceding to financial markets cannot be allowed to continue depending on the appetite for risk. In order to achieve sustainable investment dependent upon a strategic vision, Latin America and the Caribbean must be capable of mobilizing resources toward investment. What is needed are financial policies for only for regulatory purposes, which are very important for reducing financial volatility, but also for attracting financial resources.

10. Despite all of the uncertainties of the productive economy, the financial system has experienced sustained growth, stock exchanges have been stabilized and returns have kept rising during this crisis. The **decoupling of production activities from financial dynamics, and of investment from financial dynamics have continued.** As a result, in order to move toward sustainable development, it is necessary to break with that decoupling, so that the financial sector is able to finance investment in the strategic areas. Public and development banking have a very important role to play in this sphere: to guide the appetites for risk towards the adoption of a medium- and long-term strategic vision.

11. Although the world possesses a great deal of liquidity, it does not reach the places where it should; we need to improve its distribution, to move ahead with financial vehicles

capable of transferring liquidity to where it is most needed. This should not be limited to the transfer of liquidity towards creating broader capacities for action, but towards investment, inasmuch as private corporate debt and enterprise leveraging can be seen to have increased in the region, while investment has not grown, but is declining. This clearly reveals a decoupling of the financial dynamics of the enterprises themselves and the investment dynamics. In order to move toward sustainable development, that decoupling cannot be allowed to continue existing. In that connection, global, multilateral, regional and national development banks should work in coordination to produce common strategies for channeling resources in the proper direction, countercyclically, and exercising their capacity to finance innovation and development, in an effort to put an end to the decoupling of finance and production.

12. **Transformation of the production system is essential,** because a greater transformation is already underway in the way distribution is organized and in the place of work and the working conditions. Diversifying the economy is needed and that calls for more investment. The digital gap is Latin America's greatest problem in the case of digitalization. There are countries in Asia at the same GDP level, but with an Internet coverage of up to two times greater. These differences depend basically on public policy investment decisions. A key point, then, are the investments targeting strategic sectors like digitalization, that play a part in productive transformation. The actors involved in this area are an enterprising state and a private sector with higher levels of investment in national research and development plans, which today account for barely 0.4% of GDP in Latin America and the Caribbean, compared with 2.4% in the OECD countries and 3.8% in China. In many places, the agent of change is not necessarily the private sector, which today requires an important public policy boost.

13. **It is quite possible that blending will become very important in the near future, because today there is not only a problem of risk, but also of funding for given sectors.** That problem will only worsen, particularly in development banks because of restrictions on capital levels. The Banco de Desenvolvimento de Minas Gerais (BDMG), for example, announced that it needed to attract 150% more resources this year than in 2019, of which 50% were to come from abroad. Resource funding needs to be appropriately planned, because it is necessary to internalize the fact that development banks are going to be the one of the pillars in the execution of these important and strategic public policies.

IMPORTANCE OF DEVELOPMENT BANKS FOR GLOBAL RECOVERY

14. **Financing is a great driver of change.** The overall solutions being sought in these times will come from the financial sector. Development banks, as institutions which of themselves have a common mandate in sustainability, inclusion and other strategic needs that make them a community that will move ahead in the same direction and with a transcendental goal –the planet's conservation,-- bear a great responsibility in this terrain.

15. In response to the crisis, it is necessary to **acknowledge how essential development banks are for the world's reconstruction**. These financial institutions have been active for quite some time now, above all during periods of crisis, and should help to recover and maintain stability and to establish themselves as a great international community for global development. The presence of development banks in the world is not negligible; they manage assets on the order of US$11.2 billion, and finance annual investments of over US$2.5 billion, 10% of the total invested by all public and private sources. They also serve to interconnect governments with the private sector, to generate projects at the microeconomic level, to pursue short- and long-term priorities, and to coordinate international agendas to ensure that all of the parties involved in those solutions do what they are supposed to do.

16. This is the time for **all financial institutions to do their very utmost, to rethink their responses and their forms of action**. At the same time, they must fulfill their cyclical role of providing support for long-term development. Development banks are useful and, in each project, determine what the sustainable development goals (SDG) call for. The special roles and usefulness of national and regional development banks is important for the transformation, for reaching individuals, groups and each place, because it is in that terrain that development banks are deeply rooted and best positioned to play that role, assume leadership in sustainable recovery and attract the necessary attention from the financial sector. Public banks, for their part, have learned that they can adapt themselves and adjust their forms of work and maintain their usefulness to the individuals and legal entities they were created to serve.

17. Certain basic principles should be borne in mind in general public actions and particularly in actions taken by development banks when making their efforts effective. Among these, the following should be stressed: 1) the management of public resources, which of themselves are scarce and now even more so, **must be efficient**; 2) **it must be made very clear** that the road to recovery has to be inclusive, to be followed without discrimination, or that that it may be necessary to backtrack from goals already reached in that direction; 3) **it has to be strategic**, for what is done today will have an important effect on what the economy will be like in the medium and long terms. In that connection, technology and digitalization are of basic importance. Countries must have the culture and the software, as well as the infrastructure for connectivity; and 4) **be sustainable**; it is, has been, and will continue to be one of the most important challenges of this century. The solutions for individual enterprises, infrastructures, nature-based production projects, adoption of adaptation measures, are of key importance for any investments that may be made.

18. A greater contribution is needed from the development banking system today. These institutions have learned that mankind is more interconnected than ever and that the tragedies of others should lead them to seek common solutions for all. Three aspects stand out in this context: 1) **the meaning of public service**. Public banks have the obligation to act countercyclically: to be where others are not and to be there when others are retreating, and even to take a step forward and assume greater risks; 2) **act to create resilience.** Medical and economic shocks of the kind being produced by COVID-19 are inevitable and it is the duty of development banks to be prepared to confront them; 3) **work jointly**. Inasmuch as the financing capacity of each will always be limited, it will be necessary for the different financial institutions to work in coordination with each other; that is why having cooperation networks among the financial institutions themselves is so important.

19. The organization of off-balance sheet financial operations and instruments like trust funds was recommended as a means for reinforcing the financing capacity of development banks. The reason for this is that instruments of this kind have many advantages, as they make it possible to separate low-risk operations and thus not contaminate the bank's balance sheet; they do not require the use of capital, but of funds; and they are not subject to classic bank regulation, as they are more flexible. They can also be adjusted to many types of international donors, giving them more direct control over the use of the funds. This enables different donors to situate themselves at the risk levels at which they are most inclined, meaning that each can be offered what it needs. Lastly, depending on the condition of the financial vehicle, it could be securitized bearing in mind the stratification of risks.

LATIN AMERICA AND THE CARIBBEAN IN CONFRONTING THE CRISIS

20. Between 2000-2018, the average growth rate in Asia was 7.8%, in Africa 4.4% and in Latin America and the Caribbean less than 2%. **The pandemic is impacting each region differently. It shocks people, countries and continents asymmetrically.** For that reason, it must be combatted using the rationale that we are not islands, because if the virus infects one it will infect the other; as a result, actions and strategies need to go beyond national borders with a multidimensional vision.

21. **Latin America and the Caribbean were already experiencing a crisis before the COVID-19 outbreak, and what the pandemic does is to worsen it.** Social tensions ran very high in the region due, above all, to the frustration of the middle class, which saw itself as being more vulnerable to a possible return to poverty. In effect, as the Economic Commission for Latin America and the Caribbean (Cepal) points out, extreme poverty is on the rise once again and is bringing heavy pressure to bear on that 60% of the population that works in the informal sector where, in addition, 40% of the people have no social protection. The situation is putting to the test a social contract crisis, with 60% of the population losing confidence in the government and 55% thinking that it's not worth their while to pay taxes, further weakening the capacity of the public sector to intervene. It is also putting into play a vicious circle and producing an **institutional crisis which, if repeated in the future, could cause even greater social damage.** For that reason, governments are recommended to further development plans, but on condition that they be capable of involving people and society more fully in the project's definition, giving them a voice in public decisions about matters that will influence their future.

22. **Latin America and the Caribbean are not confronting COVID-19 at their very best.** Growth over the past decade prior to the pandemic was a low 1.8% and in the last six-year period only 0.4% --in other words, they confronted it from the vantage point of a very heavy drop in the economic growth rate in a climate of strong tension over a model that was not

producing the expected results. The exhaustion of the strategy could already be perceived and one of the major demands was the need to reinforce the State's role. Social inequalities and labor informality served, in that context, to magnify the effects of the pandemic by limiting or annulling the scope of targeted health policies. It can thus be seen that when universal problems are created, there are no effective tools for responding to them; what is needed is to move ahead with stronger social policies and States that are capable of coordinating a universally-oriented vision.

23. Unlike the case of the subprime crisis, this time Latin America and the Caribbean will not see a rapid recovery of the GDP level of activity. In the subprime crisis, pre-crisis levels of 2008 had been reached by 2010. The effects of this crisis, however, can linger for years before returning to the previous levels of activity. The economies' capacity for recovery will be slow. In that scenario, macroeconomic policies and active public policies will have to play a leading role. Fiscal policy is key within that series of policies. While the countries have made fiscal efforts, to a greater or lesser extent, it is important to maintain those efforts, not only for purposes of economic recovery, but also to move ahead in an economy with sustainable development, for which expansive fiscal policies will be needed.

24. Maintaining expansive fiscal policies is necessary not only for economic revival, but because the short term will affect the medium and long terms and because what is done for recovery will determine the future course. Income-based fiscal sustainability will be needed to maintain expansive fiscal policies. Latin America and the Caribbean must be capable of increasing their fiscal revenues by raising their tax burdens and modifying the existing tax structure, which is one of the world's most regressive. The LAC region must show itself capable of raising direct taxes –on individuals, wealth, inheritance, equity, and corporations,-- because a sustainable active and expansive fiscal policy is required in order to be able to progress towards inclusive and sustainable societies. That is only possible with greater fiscal income. At the same time, it is important to improve resource efficiency and effectiveness, above all in how to move ahead from a focalization rationale to one of fiscal expenditure universalization.

REGIONAL AND NATIONAL DEVELOPMENT BANKS IN CONFRONTING THE CRISIS

25. Public intervention, which in more or less normal situations is not needed in all economic spheres, has **had to increase its involvement in the present circumstances, to avoid greater consequences for the economic and social systems.** The actions of financial organizations like CAF – The Development Bank of Latin America, Fonplata – Development Bank; The Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CDC), and the Inter-American Development Bank (IDB) are important at the regional level. The IDB, for example, has been supporting most of the region's countries insofar as public sector intervention is concerned. Over the past 6 months, the bank has lent a little over US$3,000 million to development banks, a large sum for the IDB in relative terms. But, in addition, it has also provided assistance in areas like health, public spending, and public debt management, among others.

26. In Europe, the EIB is working mainly in two areas. In sanitary resilience, it is working very closely with the World Health Organization (WHO) under a strategic agreement, and with the countries on how to shore up primary health assistance by means of loans and technical assistance. WHO is being given support with provisioning chains for COVID-19-related materials by investing in companies that produce these types of material, thereby helping to diversify production of medicinal products. Ultimately and very directly, it is collaborating with the European Union on giving the global population, particularly low-income countries, access to vaccinations against the virus.

27. Its efforts in the area of economic resilience, on noting the extreme vulnerability of economies in all of the world's regions, have been aimed at orienting resources to shore up banking systems so that they can continue to lend to SMEs affected by a lack of liquidity and in danger of having to close down their businesses. As a result, the support for SMEs through the banking system is of basic importance and for that reason banks are speeding up disbursements and attending to the heavy demand for the lines that have been opened. These efforts are also aimed at creating economic resilience by helping to reduce inequalities. As long as inequality continues to exist at the level seen in all continents of the world and in **which women have not**

been completely integrated into the countries' economic activity, the possibility of acquiring resilience will remain weak.

28. Another area in which the EIB considers it should **work is on reinforcing productive and social infrastructure, inasmuch as many of the gains in development are being destroyed or lost as a result of the crisis.** In this area, over the past few years, the EIB has been making a climate resilience analysis in all of the investment operations in which it participates, in order to ensure that the infrastructure is developed and designed with an eye to the future. Another strategic EIB target area is to strengthen digital access in both infrastructure and services, inasmuch as the bank has seen that one of the ways to create economic resilience is through access, governance, education and digital commerce. All of these aspects require investment in infrastructure.

29. At September, the Banco de Desenvolvimento Económico e Social (BNDES) had placed resources of its own totaling close to US$19,000 million, **acting on four fronts by supporting:SMEs and individual entrepreneurs, the weakest part of the entrepreneurial link, the health sector, large strategic enterprises in individual cases, and the public sector. Its approach centered more on impacting individuals.** In this connection, it has supported some 228,000 enterprises, thus helping to save some 7.5 million jobs. Foremost among its support measures are the suspension of payments and the implementation and operation of the Emergency Access to Credit Program (PEAC), funded with national treasury resources, that guarantees up to 80% of commercial bank loans. The PEAC started operating with a budget of some US$3,571 million and a loan potential of some US$17,857 million. That figure now stands at almost US$9,125 million in loans based on those resources. Over 66 thousand enterprises have been benefitted and some 3 million jobs safeguarded. In addition, a working capital loan line of roughly US$1,304 million was created for SMEs and, in view of its great success, the available fund was doubled. Drawing on these funds, the BNDES has been able to support about 22,000 enterprises and save approximately 541,000 jobs.

30. **National development banks should be poised to take action and be in continuous evolution.** Development banks in Colombia, for social reasons and due to natural disasters

predating the crisis, had already started to design working capital lines with favorable interest rates (compensating balance interest rate) and raised some funds, meaning that they were largely prepared, as in the case of the Banco de Comercio Exterior de Colombia (Bancóldex). The very day the pandemic's arrival in the country was announced, the bank put into play the first support line targeting the tourism sector and other related services. Since then, more than 30 financing lines have been implemented in partnership with regional and municipal governments, so that the subsidies can finally reach the beneficiaries with a 20-month leverage and exerting a multiplier effect of 15 to 20 times. Disbursements over the first 9 months of 2020 are equivalent to 110% of the amount disbursed in 2019. Even so, several difficulties arose along the way. In March of 2020, the financial markets closed, oil prices dropped, and local currency was devalued, seriously jeopardizing the bank's solvency. Fortunately, the financial and capital markets rallied rapidly, acted with resilience and were able to recover, enabling the bank to raise funds. Since that initial moment, and with an eye to the future, financing lines for recovery have been implemented with better terms.

31. **Support to local governments.** As a result of COVID-19, 3.8 million workers in Colombia lost their jobs, with a 30% drop in income and a 15.8% increase in poverty expected by the end of the year. Furthermore, territorial government (departments) tax revenues are expected to drop 22%, which will have serious implications for investment. Confronted by this situation, the government raised US$7,530 million (2.7% of GDP) to cope with the emergency. These resources are enabling it to minimize by 30% the impact of COVID-19 on poverty levels and other damages. To make the most of these resources, development banks are offering special financing lines to promote economic recovery and protect employment, drawing on their own resources and those of the Emergency Fund (Fome), created by the government to subsidize rates and create special lines. In Financiera del Desarrollo's (Findeter) case, the resources amount to US$1,580 million. The "Colombia Commitment" Program, launched during the first stage of the emergency, was created to provide liquidity to municipalities and territorial units that were experiencing a reduction in income. Furthermore, the Multipurpose Real Estate Register Line was implemented to enable them to resolve the decline in revenues as economic recovery advanced and subsequently to generate larger receipts. Another line was implemented to subsidize public utility companies because lower-income earners had temporarily stopped paying for their water, electricity and household gas services.

32. From rediscount operations to direct service. Confronted by the difficulty in transferring the benefits of the compensating balance (or subsidized) rates, the government permitted –at least temporarily—development banks to reach their final customers directly. The most pressing needs were to be found among the most vulnerable municipal governments, for which access was very difficult and extremely costly. This made direct loans necessary in order to reduce their cost and thereby avoid the need for intermediation. As a result, Findeter granted funds at rates ranging from 0 to 4.5% in local currency, for 10-year terms, with 3 years of grace. Those loans, through intermediaries, would have been repayable at a 5 to 7% interest rate. Financings granted under this arrangement are intended for working capital loans for projects that had been suspended because of their lower returns, as well as for new investment projects. Findeter has reached 58% of the national territory, benefitted 88% of the country's most vulnerable municipalities, and financed 440 strategic projects. A breakdown of the resources shows that 78% consist of lines for coping with the COVID virus and the remaining 22% is traditional credit; 34% of these were direct loans. Each of these projects create, on average, 6,000 direct employments and all told signified a total of 2.64 million direct jobs.

33. Efforts of the Banco Nacional de Costa Rica were facilitated during the pandemic by its having implemented some of the projects for digitalizing service provision processes before the outbreak of the crisis. **Its strategy focused on digital transformation and was accelerated to meet the customers' needs.** However, it came up against certain limitations among customers by reason of their business culture, knowledge of the use of traditional channels and preference for cash use in financial transactions. Among the bank's actions, the following can be highlighted: 3-month deferral of installment payments and some credit card exonerations. Automatic extensions were granted to all enterprises affected whose pre-crisis ratings had been normal. Tourism, one of the country's basic sectors, was the most affected, as in other countries, although agriculture ended up being heavily impacted, and also commerce. These types of enterprises were given extensions of from 3 to 9 months, according to the results of analyses of the customer and the encumbrance, which meant some US$1,800 million. This was accompanied by capital for the recovery phase through the "Programa Juntos al Amanecer" (Together at Sunrise Program), which has placed some US$117 million thus far. This program is used to boost e-commerce in order to help SMEs with the marketing of their products during this pandemic that calls for social distancing measures.

34. **Financial markets in Mexico suffered from low liquidity levels, while agricultural producers and agribusiness faced pressures in their debt burden flows.** Faced by this scenario, the Fideicomisos instituidos en Relación con la Agricultura (FIRA) – Banco de México took countercyclical action. Using a wholesale banking system, FIRA focused in two directions. It initially served agricultural creditors to help bring down their debt burdens and granted them additional credit to reactivate their activities. Subsequently, it sought to ensure an adequate flow of alternative resources to deal with the illiquidity noted in the credit and interbank markets. In that connection, it launched a loan and guarantee support program for agricultural financing institutions, facilitating their debt restructuring on longer terms and at lower interest rates. FIRA also implemented a program to grant additional credit to producers so that they could relaunch their activities, allocating a further sum in the neighborhood of 15,000 million pesos (some US$718 million) for debt restructuring and 5,000 million pesos (some US$240 million) for additional credit, which accounts for more or less 10% of the institution's portfolio. A second line of countercyclical measures were taken **to benefit the network of financial intermediaries (IFIs)** and in particular for small and medium-sized banks and non-bank IFIs without enough liquidity. Discount lines were facilitated for them to offset the little funding available at that time and to enable them to continue with their financing activities.

35. Peru was one of the first countries to take health and economic measures. The Central Bank first lowered the banking reserve ratio requirement and moved ahead with the purchase of assets to facilitate liquidity and restructure debts and eased ratings to avoid impacting bank balance sheets. Subsequently, it boosted tax measures and guarantee funds to give them more flexibility and created the Reactiva Perú (Reactivate Peru) program endowed with some US$17,000 million to give enterprises of all kinds access to loans at fairly low, less-than-two-digit rates, financed from Central Bank funds and placed through auctions. The aim was to supply liquidity to keep the payment chain from being brok**en and to avoid bank and enterprise insolvency. It also implemented other support programs. The lesson to be learned from all of this is that a country with 70% of its EAP working in the informal sector suffers from serious limitations on facilitating access to SME financings.** This raises a challenge: how can the situation be profitably used to create incentives and reduce informality, now that the benefits of formal employment have been revealed? The economy's institutional level is also very important because it facilitates public coordination among the institutions themselves and with the private sector.

36. Private banks normally **favor the short term, while national development banks focus on the long term**, with financing for investment and modernization. Their active participation in coordinating value chains is of key importance for SME insertion. They have also promoted online fairs that have been very successful in some countries and have resulted in sizeable enterprise sales and important credit placements. Another noteworthy matter in regard to development banks are the electronic transfers for affected persons that received or have started receiving government assistance, for it allows for screening and traceability and supports vulnerable sectors like women and reaches sectors and territories not served by private banks. The Banco Hondureño de la Producción y la Vivienda (Banhprovi) is closely identified with actions of this kind, but has also worked vigorously to activate and create guarantee funds and programs, and in providing special service for the recovery of sectors of strategic importance in creating jobs and producing for the domestic and export markets, as in the cases of the construction and agricultural sectors.

OPPORTUNITIES FOR FUNDS AND FOR SUPPORTING SUSTAINABLE DEVELOPMENT

37. The thematic bonds market shows highly important exponential growth, particularly over the past two years. The COVID-19 crisis has not affected that growth; on the contrary, it has become a trend. The trend in capital markets is for rating companies to seek more transparency and fuller information from banks, market issuers, projects, and corporations about their portfolio management of environmental sustainability.

38. Development banks, aside from furthering specific pilot programs in some sectors and helping to promote sustainability through dedicated lines, **today must think more holistically** –in other words, like banks that integrate sustainability not only in terms of their responsibility for getting governments to reach sustainable development goals and integrate them within their own strategies.

39. Latin America and the Caribbean **are a region that is extremely active in the integration of environmental, social and governance (ESG) criteria.** Some countries have highly structured regulations. A sizeable number are developing systems with ESG integration, above all at the private sector level. Colombia, for example, has a Green Protocol, but there are many other countries with this type of interaction and that promote common standards. This trend can also be seen in stock exchanges. The COVID-19 crisis is a problem, but also offers an opportunity for most funds. The ESG are now viewed more favorably by investors, which are beginning to understand that integration of the benefits produced by those criteria with good portfolio management is connected with governance in general during a period of crisis and greater fragility of investment assets, with the results that investors consider that in a positive light.

40. **Recognition of the importance of integrating ESG criteria into business operations has made the bond market important.** Even though most of the financing is provided by banks and the capital market is still small in Latin America and the Caribbean, it is still an important market for attracting sustainable investments. Here the development banking system has a huge opportunity, to not only attract funds, but also to show investors the market and how it is promoting sustainability. The sustainable bonds market is still very small compared with the global bonds market and in 2019 reached some US$328,000 million in leveraged investments. Although Latin America and the Caribbean hold only 1%, they possess a huge potential for increasing their share of that market. Precisely with the worsening of fiscal restrictions due to COVID-19, many countries will have to progressively work their way back to the bond market to raise funds with which to meet the expenses of the pandemic. But this also offers them the opportunity to place bonds not only for specific projects and investments tied in with recovery from COVID-19, but due to their potential in terms of social and environmental impact.

41. An analysis of COVID-19 denominated bond issues over the year 2020 **reveals the loss of a major opportunity, inasmuch as more than 50% have not yet aligned the social impacts of those bonds.** The Latin American and Caribbean development banking system is a pioneer in this market. About five years ago, the Banco Nacional de Costa Rica (BNCR), and later Nafin, boosted the green bonds market with their initial issues and over these years development banks accounted for 60% of those issues. Today, there is a more active market, with many other types of players issuing bonds, but it can also be seen that the market has spread to other countries like Colombia. But even more important, the bonds are being issued today in national capital markets, when in the beginning many were issued in international markets.

42. **There is another important aspect of the green bonds market: it is a great help for the issuance of social bonds and for other types of thematic bonds**, in the degree to which it permits development banks to show external investors what they are doing; the type of impact they are producing on job creation, diversification of resources for different sectors like technology, the orange economy, financing of enterprises led by women, agriculture/forestry, lodging, education, health, waste management, renewable energy sources and energy efficiency, SME financing, sustainable transport, and sustainable infrastructure. The latter four sectors have been recipients of over 50% of the US$3,831 million attracted by development banks for projects of this kind.

43. The IDB has viewed **the green bonds market as being highly strategic**. Ten years ago, when it started working with the development banks, the idea was to carry out some isolated programs. Today, with a very different outlook, in which the economies need to recover, the market for international, global and regional investors is beginning to bring pressure to bear on having that recovery be both financially and economically and socially sustainable. Attention is also being placed on sustainability and good governance. In that way, the bonds have become very interesting, because they make it possible to leverage using another type of resources and it is in this terrain that development banks are called upon to act, although they will have to cope with a restricted capacity given the large demand.

44. What is important, **above and beyond the demand for the structured programs that development banks will offer, is to demonstrate the impact on environmental employment and on emission reduction.** This should preferably be accomplished within local financial systems. Also, to develop a public-private dialogue among development banks, commercial banks, regulators and investors, so that they can jointly discuss how to integrate sustainability matters.

45. **The efforts of development financing institutions, for the future, is associated with long-term social returns and the commitment to good corporate ESG practices.** In order to accomplish this, the FIRA, for example, launched a three-pronged strategy in 2015 to incorporate those practices into the institution, the sectors, and other agricultural financing actors. This involved implementing an internal strategy, setting up units associated with ESG practices, upgrading its personnel recruitment processes to avoid discrimination, giving the staff training

to put them on an equal footing insofar as opportunities are concerned, establishing codes of conduct, together with a series of related activities that brought order to the institution, and then promoting these practices outside it. The important point to be made here is that agricultural financing has become aligned with these practices.

46. The FIRA adopted Ecuador's principles in order to possess **a methodology for keeping financings channeled to the sector from damaging the environment.** This methodology was instituted and today operates in a goodly number of projects valued at roughly 4,500 million pesos (over US$215 million). Furthermore, considering that agriculture, its target sector, is the second sector most impacted by greenhouse gas emissions, in 2015 the bank prepared a list of 55 investment items divided into the categories of energy conservation, renewable energy sources, water conservation and environmentally-friendly agriculture. It then aligned its financing instruments to endow the financial institutions with which it operates and the producers with facilities for adopting the related technologies.

47. **One characteristic or function of development banks is to create markets, develop innovative financial instruments and generate new funding sources**, among other things. For that reason, the FIRA, as a development institution, incurs huge expenses to open channels for interconnecting stock exchanges with agricultural producers. In a joint effort with the IDB, both environmental and social frames of reference were prepared, in order to comply with the principles governing the international capital markets and thereby be able to issue bonds for environmental or social benefit. Three green bonds with different characteristics have been successfully issued: energy conservation, water conservation, and forestry and the institution is now engaged in placing a social bond with gender characteristics to raise funds for rural women.

SMES, CRISIS AND SUPPORT MEASURES

48. Factors like **the growth of inequality and the sizeable drop in employment have largely to do with the situation of SMEs in Latin America and the Caribbean.** ECLAC estimates that nearly 2.7 million formal enterprises, particularly MSMEs, will close down. Inequality has risen and is expected to continue growing, fueled by the pandemic. By its estimates, the region will experience a 10-year slippage in per capita GDP terms.

49. SMEs have been at the center of the COVID-19 pandemic. The results of over 40 business surveys conducted globally reveal that more than 50% of the SMEs saw their income drop heavily and ran the risk of falling into bankruptcy in less than three months' time. Insolvency is expected to climb significantly, by 17% in 2020 and 16% in 2021. Some sectors were particularly affected, including tourism, where SME presence is dominant. Revised international tourism estimates for 2020 revealed a drop of -60% had recovery started in July, -75% in September, and -80% in December. Tourism in the countries of the Organisation for Economic Co-operation and Development (OECD) accounts for an average of 4.4% of GDP, 6.9% of employment and 21.5% of service exports. But passenger traffic is expected to drop 55% in 2020 to the levels of 2006 (International Air Transport Association - IATA) and for that reason possible global losses are estimated at up to US$1.2 billion in export revenues with as many as 120 million jobs at risk in the tourism sector. It is for that reason that tourism is one of the sectors specifically targeted by both national and development bank support measures.

50. Enterprise start-up rates were also heavily affected, although their incipient recovery could be glimpsed in some countries. Enterprise establishment/application rates fell heavily initially, between March and May 2020, followed by a recovery over the summer months (June-August), although uncertainty continued to reign. Job losses affected some communities more than others. Potential employment losses in the short term range between 15 and 35% in all regions of the 34 OECD and European countries. The role to be played by governments in controlling and turning around this situation was highlighted as being essential for their recovery.

51. SME policy responses. Measures devised to address the crisis varied in most countries, to wit: 1) Information and health measures; 2) postponement of payments and layoffs (temporary); 3) improvement of SME access to credit (i.e. loans, guarantees); 4) wage subsidies; 5) structural policies (i.e. acceleration of digitalization; internationalization, etc.). This process was viewed as a **gradual transit from crisis and rescue management policies toward structural policies for promoting long-term entrepreneurial growth, competitiveness, and resilience.**

52. While policy measures differed, the instruments were similar. By frequency of utilization during the initial phase of the COVID-19 crisis, **loan guarantees, tax payment deferral, and wage subsidies** were the most used entrepreneurial support measures. In the case of guarantee measures, the most common were greater funding assistance to existing systems, creation of new systems for affected SMEs that had lost their access to financing, simplification and fast-track procedures, and raising of the coverage ratio and of the loan ceiling. In the OECD countries, however, in addition to the stagnation of enterprise loans during the first half of the year, other types of financing were also a matter of concern: initial stage capital financing, like seed capital and angel investors in the U.S. and China, declined. A contraction was expected in the Euro zone, as it was in the case of trade financing, which was heavily impacted by the decrease in both supply and demand in international trade.

53. Greater benefits are anticipated in light of the variety of COVID-19-related financial support instruments that exist in the OECD countries: 1) in loan guarantees: new systems, coverage of greater public risk and easier access; 2) Direct loans: new systems; 3) Capital: Reinforced public risk capital funds, economic stabilization fund to protect and incentivize strategic activities, bridge loans for new enterprises, convertible loans for innovative enterprises; 4) subsidies: For SMEs impaired by the general shut-down of activities and as wage subsidies.

54. Further SME recovery policies should, from the viewpoint of the OECD, link up short- and long-term responses in reference to: 1) access: How can SMEs and individual businesses be guaranteed rapid access to support, with accountability being guaranteed at the same time? How can the support instruments reach all viable SMEs?; 2) Sustainability: How can the alternative financing mechanisms and channels be put to use to avoid SME overborrowing? How can equity resources be attracted for their growth? 3) Entrepreneurial vigor: support for an innovative entrepreneurial spirit and establishment of emerging enterprises; 4) Movement ahead with responses to bring about structural changes: How can a transition be effected from crisis management to structural policies capable of improving SME long-term resilience and competitiveness? Through, for example, the accelerating of digitalization, professional readaptation to new forms of work, and the use of technology.

55. It was suggested that the following measures be borne in mind in supporting SMEs: 1) grants, subsidies and soft loans and capital instruments are more common, but it may not be a good idea to increase an SME's debt burden; and convertible bonds or hybrid instruments; 2) highly restricted assistance (enterprise eligibility) may slow down support services and keep those that really need those services from receiving them. The European Union revised the regulation on state assistance to enable emerging technologies to receive support; and other countries relaxed credit rating requirements for access to credit guarantees; 3) the high levels of due diligence demanded by lenders can limit the general levels of participation; 4) strict limitations on how assistance can be used can lead to its underutilization and require changes in programs; 5) consideration of how to help employees and enterprises in countries with high labor informality levels; 6) aligning incentives could promote greater participation by private parties; linking economic assistance to health indicators could enable a government to give SMEs rapid assistance in the face of changing conditions.

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Latin American Association of Development Financing Institutions (ALIDE).
Paseo de la República 3211 San Isidro, Lima, Perú
Phone: +511-203-5320 Ext: 228 | E-mail: secretariageneral@alide.org
www.alide.org