

**Development
bank financing
in the context of
the COVID-19 crisis
in Latin America
and the Caribbean**

Georgina Cipoletta Tomassian
Tarek Abdo



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Development bank financing in the context of the COVID-19 crisis in Latin America and the Caribbean

Georgina Cipoletta Tomassian
Tarek Abdo



COVID-19
RESPONSE

This document was prepared by Georgina Cipoletta Tomassian, Economic Affairs Officer, and Tarek Abdo, consultant, both with the Financing for Development Unit of the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC).

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Abstract

The world's financing needs multiplied rapidly from 2020 onward owing to the effects of a systemic crisis considered to have been the worst global crisis since the Second World War: that unleashed by the COVID-19 pandemic. Furthermore, flows from China, FDI and other inflows of international cooperation and multilateral resources which had been the largest in the region for some years fell back from their pre-pandemic levels.

In this context, the debate about the fundamental role of development banks in alleviating market constraints in a crisis has come to the fore. The present study seeks to contribute to that debate by analysing information compiled in a database of multilateral, regional, subregional and national development bank financing measures, priorities and amounts in Latin America and the Caribbean for the specific purpose of addressing the needs of the countries given the effects of the COVID-19 pandemic between 2020 and 2021.

Over its different chapters, the study presents a number of stylized facts derived from the behaviour of these institutions in the region in the face of the recent crisis caused by the pandemic, which support the assertions made here about the role of development banks.

The results show that, in a particular crisis context such as the one produced by COVID-19, development banks proved to be one of the most powerful tools for helping to check the speed of the economic collapse, catalyse the financial recovery of firms and achieve different development objectives for the population by responding with countercyclical financing and minimizing the hysteresis ensuing on the crisis.

Introduction

In 2020, the world faced one of the worst economic crises in history, unleashed by the COVID-19 pandemic. Latin America and the Caribbean was one of the worst-affected regions, experiencing unprecedented declines in GDP (7.7%) and investment (20%) (ECLAC, 2021). The contraction of aggregate demand in the region as a consequence of the COVID-19 health contingency has wrought havoc on businesses, affecting their financial sustainability and ability to maintain employment. The credit constraints that inevitably arise in situations of uncertainty and asymmetrical information destabilized the situation of agents in the different economies. Under such conditions, the role that the nature of development finance institutions allows them to play is crucial in curbing the speed of potential economic decline, and also in contributing to recovery.

Indeed, development banks are among the State institutions that can be equipped with the tools necessary to catalyse the financial recovery of enterprises and pursue these objectives. Briefly put, development banks have three characteristics that make them one of the most powerful instruments available to governments to deal with the coronavirus crisis.

- (i) Their ability to distribute resources countercyclically in highly uncertain environments, fostering economic stability by lending in times of crisis.
- (ii) Their ability to serve segments of the population not covered by the private financial sector. They can thus direct financing to sectors that are included in a national development plan, filling lending gaps or boosting demand.
- (iii) Their role in the implementation (coordination) and financing of medium-term development strategies,¹ continuously improving standards (financial, safety, etc.) in the institutions they fund as well as promoting innovation and environmental sustainability.

Meanwhile, a development bank is not only a source of finance, but also a body with the knowledge and experience to target funds in the way that is most consistent with social, economic and environmental development objectives. Indeed, the mandate of development banks is precisely to help achieve social objectives rather than maximize profit. Thus, governments can rely on these institutions to manage

¹ See Griffith-Jones and Cozzi (2014).

programmes designed to support the population, and they may actually be essential for extending financing to small actors on whom little information is available (Cull, Martínez Peria and Verrier, 2017).

Market actors, private or public, are also considered more likely to be able to follow the path of development and to hold financial institutions accountable through national development banks (Kring and Gallagher, 2019; Gallagher and Studart, 2016).

As an example of the use of these characteristic tools of development banking, development banks increased their loan portfolio by 36% globally during the financial crisis of 2007–2009; this was substantially higher than the 10% for commercial banks.²

Bertray, Demirgüç-Kunt and Huizinga (2015) show empirically that development bank lending is less procyclical than private bank lending, in line with a study by Brei and Schclarek (2013) which uses data from 764 banks in 50 countries between 1994 and 2009 to show that public banks increase their lending in times of crisis, while private banks reduce it. According to the same authors (Brei and Schclarek, 2015), private banks may prefer to reduce their lending and increase their liquidity holdings because of the nature of their mandate and because, having a better prospect of recapitalization, they are thus less likely to suffer massive withdrawals.

Given that economic development is the result of a combination of macroeconomic policies which stimulate investment and reduce volatility through countercyclical policies in the fiscal, monetary and financial spheres (Ocampo, 2011), the countercyclical contribution that public banks can make to support such policies in the countries of the region during crises such as those that have now been brought on by COVID-19 highlights the role these institutions can play. This role is particularly important considering that one of the challenges looming in the context of the pandemic and the post-pandemic recovery is that the developing-country financing needs triggered by the crisis will be exceptionally great and persistent in the medium term (World Bank Group, 2020).

Against this background, and with the aim of contributing to the debate on the role of development banks in times of crisis, this document sets out to study how these institutions in the region have responded, both quantitatively and qualitatively, with a view to mitigating the effects of the COVID-19 crisis. To this end, the study carries out a survey, classification, analysis and characterization of the measures and financial resources deployed by national, regional and subregional development banks in Latin America and the Caribbean when the pandemic broke out.

The information in the study comes from a database previously developed by the authors from primary and secondary information sources with the aim of cataloguing as many as possible of the financing measures and priorities deployed by the region's development banks between early 2020 and 2021 to meet the different needs arising in the countries as a result of the COVID-19 pandemic.

The document consists of five chapters that describe and analyse the response of development banks to COVID-19, classified into measures and financial support by each type of institution, and broken down by recipient country and subregion (chapter I), by recipient sector and economic agent (chapter II) and by the main financial instruments used (chapter III). Chapter IV provides further details to illustrate the response of development banks to the pandemic in two cases in the region (Argentina and Mexico) and, lastly, chapter V presents the main conclusions of the paper and proposes policy recommendations.

² See De Luna-Martínez and Vicente (2012).

I. How development banks responded to COVID-19: financial support by each type of institution, broken down by destination country and subregion

From early 2020, Latin America and the Caribbean began to face the effects of a systemic and global crisis caused by the COVID-19 pandemic, in a context where there was less access to multilateral development finance flows than during other international crisis events, such as the Global Financial Crisis (2008–2009). At the same time, however, there was a substantial effort by the region's development banks (particularly national institutions, but also subregional ones) to increase financing measures and amounts in order to confront the challenges created by the pandemic in the different economies.

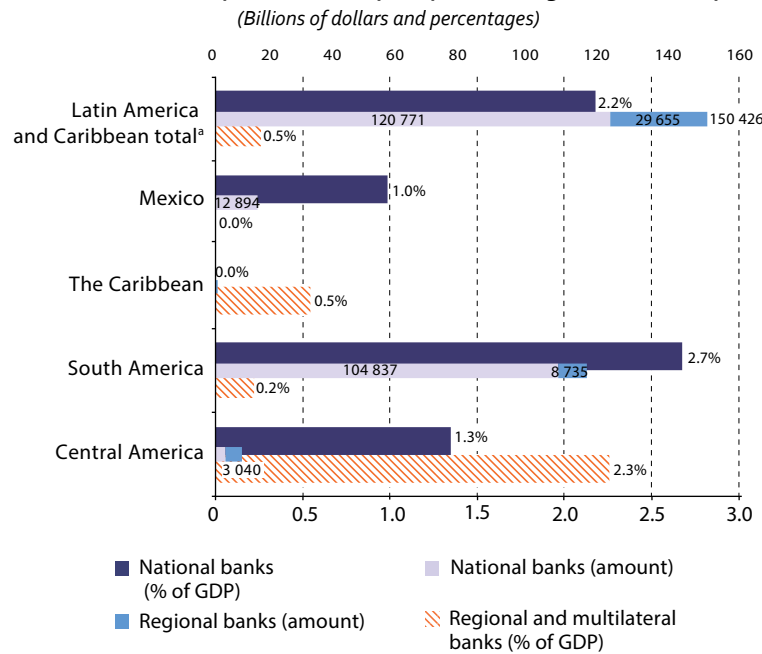
These actions by development banks provided the most forceful response to the pandemic in the area of development finance, and as discussed in the introduction to this document, they played a noteworthy and vital role of providing countercyclical credit in crisis periods.

In total, between January 2020 and February 2021, national, subregional, regional and multilateral development banks between them earmarked US\$ 150.4 billion in funding for the Latin America and Caribbean region to address the effects of the pandemic.

While public banks as a whole played a leading role in the countercyclical response to the COVID-19 crisis, the largest effort in the provision of financial resources was undoubtedly made by national development banks.

These national development finance institutions earmarked the equivalent of US\$ 120.8 billion for financial support to Latin American and Caribbean countries between January 2020 and February 2021, far more than was provided by multilateral, regional and subregional development banks combined (US\$ 29.7 billion). See figure 1.

Figure 1
Latin America and the Caribbean: COVID-19 funding provided by national and regional or multilateral development banks by recipient subregion, to February 2021



Source: Prepared by the authors, on the basis of official information, press clippings and G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, unpublished.

Note: The regional and multilateral banks are: the World Bank, the Central American Bank for Economic Integration (CABEI), the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF), the Caribbean Development Bank (CDB), the International Monetary Fund (IMF) and FONPLATA Development Bank. The national banking institutions are: Paraguayan Financial Development Agency (AFDP), Development Agency of the State of Amazonas (AFEAM), Agência do Fomento do Rio Grande do Norte SA (AGN), Agência de Fomento do Estado de Santa Catarina SA (BADESC), State Development Agency (AgeRio), Development Agency of the State of Tocantins, National Development Agency (ANDE) (Uruguay), Brazilian Development Association (ABDE), Banco Agrario de Colombia, Banco Ciudad (Argentina and Panama), Banco da Amazônia, Banco de Brasília (BRB), Banco de Desarrollo Agropecuario (Panama), Banco de Desenvolvimento de Minas Gerais (BDMG), Banco de Desarrollo del Ecuador, Banco de Desenvolvimento do Estado do Espírito Santo (BANDES), Banco de la Pampa (BLP) (Argentina), Banco do Brasil (BB), Banco do Nordeste (BNB), Caixa Econômica Federal (CEF), Banco Estado (Chile), Banco Hondureño de la Producción y la Vivienda (BANHPROVI) (Honduras), Banco Nación (Argentina), Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Banco Popular y de Desarrollo Comunal (Costa Rica), Banco Provincia (Argentina), Banco Regional de Desenvolvimento do Extremo Sul (BRDE), Banco de Comercio Exterior (Bancoldex) (Colombia), Financiera de Desarrollo Territorial (FINDETER) (Colombia), Banco Cooperativo do Brasil (BANCOOB), Banco Cooperativo Sicredi (Brazil), Cresol (Brazil), Bancor (Argentina), Banco de Desarrollo de El Salvador (BANDESAL), BanEcuador, National Financial Corporation (CFN) (Ecuador), Ecuadorian Social Security Institute (IESS), Banco de la Seguridad Social (BIESS) (Ecuador), Banco de Desarrollo del Ecuador (BDE), Corporación Nacional de Finanzas Populares y Solidarias (CONAFIPS) (Ecuador), Banco Nacional de Obras y Servicios Públicos (Banobras) (Mexico), Nacional Financiera (Nafin) (Mexico), Banco Nacional de Comercio Exterior (Bancomext) (Mexico), Sociedad Hipotecaria Federal (Mexico), Banco do Estado do Pará (Banpará), Reserve Bank of the Dominican Republic (BANRESERVAS), Banco de Desarrollo Rural (BANRURAL) (Guatemala), Banco de Desarrollo Productivo de Bolivia (BDP), Banco BICE (Argentina), Banco Nacional de Bolivia (BNB), Banco Nacional de Fomento (BNF) (Paraguay), Banco de la República Oriental del Uruguay (BROU), Caja de Ahorros (Panama), Financial Development Corporation (COFIDE) (Peru), Production Development Corporation (CORFO) (Chile), Desenvolve – Development Agency of Alagoas, Desenvolve – Development Agency of Mato Grosso, Desenvolve - Development Agency of São Paulo, Agricultural Sector Financing Fund (FINAGRO) (Colombia), Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (FND) (Mexico), Fideicomiso Instituido en Relación con la Agricultura (FIRA) (Mexico), Small Business Guarantee Fund (FOGAPE) (Chile), Corfo Investment and Working Capital Guarantees (FOGAIN) (Chile), Buenos Aires Guarantee Fund (FOGABA), Banco Provincia (Argentina), Goiás Fomento, National Institute for Agricultural Development (INDAP) (Chile), National Institute for Cooperative Development (INFOCOOP) (Costa Rica), Antioquia Development Institute (IDEA) (Costa Rica), Development Banking System (SBD) (Costa Rica), National Enterprise Guarantee System (SiGa) (Uruguay), External Trade Development Corporation (Procomer) (Costa Rica), National Apprenticeship Institute (INA) (Costa Rica) and Federal Mortgage Society (SHF) (Mexico).

^a The Latin America and Caribbean total includes not only the amounts that each country received individually from domestic banks and regional or multilateral banks but also US\$ 6.266 billion in the form of joint packages for the whole region from regional and multilateral banks (IMF and CAF) and an additional US\$ 9.677 billion resulting from a revision of sums reported by IDB and CAF in February 2021, without disaggregation of the data by country.

A. By country, subregion and region

The total of more than US\$ 120 billion provided by national development banks benefited not only some of the largest economies in the region, but also some smaller ones. Brazil was the country with the largest gross contribution from national development banks, at US\$ 74.986 billion (around 3.2% of GDP), followed

by Peru and Mexico, with amounts of US\$ 20.320 billion and US\$ 12.894 billion, respectively. The next highest gross amounts of funding from national development banks in the context of this crisis were in Colombia and Chile, at us\$ 4.525 and us\$ 4.236 billion dollars, respectively.

As regards the bank share of GDP in the region's economies, the countries with the largest contributions from regional banks relative to the size of their economies were Uruguay, Dominica and the Plurinational State of Bolivia, with values representing around 3% of their annual GDP. Domestic banks had the largest shares in South America and Mexico, especially Peru, where it was 9.6% of GDP. In the Caribbean and Central America, financing came mainly from regional banks, with the exception of El Salvador and Panama, where financing from domestic banks represented 6% and 2.8% of GDP, respectively (table 1).

In this regard, Fleiss (2021) shows that in smaller countries (with smaller economies), the main source of financing are the contributions of multilateral banks, while the larger economies are leveraged to a greater extent by private and Chinese capital. This explains why more than 50% of the public or publicly guaranteed debt in countries such as Guatemala, Honduras and the Plurinational State of Bolivia is owed to multilateral banks, and why the participation of regional banks in this crisis has been greater than that of national banks.

Until 2018, Ecuador received constant financing from China (it was the second-largest recipient after the Bolivarian Republic of Venezuela between 2005 and 2020), but multilateral banks became important once these funds declined, as was reflected in the COVID-19 crisis, when these institutions contributed amounts worth 1.45% of GDP. The data presented by the authors of this paper confirm the findings of Fleiss (2021), since, of the five largest economies in the region, only in Argentina did multilateral banks provide a greater amount of financing than national development banks (table 1).

Table 1
Multilateral and national development bank financing by country
(Percentages of GDP)

Country	Multilateral banks	National banks
Argentina	0.44	0.14
Belize	1.29	0.00
Bolivia (Plurinational State of)	2.53	0.00
Brazil	0.00	3.19
Chile	0.00	1.48
Colombia	0.24	0.91
Costa Rica	0.99	0.10
Dominica	3.04	0.00
Dominican Republic	0.29	0.00
Ecuador	1.45	0.13
El Salvador	0.15	6.07
Guatemala	1.10	0.23
Haiti	0.36	0.00
Honduras	0.87	0.27
Mexico	0.00	0.99
Panama	0.10	2.77
Paraguay	0.73	2.20
Peru	0.85	9.64
Saint Lucia	0.99	0.00
Saint Vincent and the Grenadines	0.59	0.00
Trinidad and Tobago	0.10	0.00
Uruguay	3.40	0.35

Source: Prepared by the authors, on the basis of official information, press clippings and G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, unpublished.

B. By financial institution

Among the responses provided by development banks in the form of funding resources when the pandemic broke out at the beginning of 2020, it is possible to distinguish between different types of development finance institutions in the region. Regional and subregional banks generally reacted quickly by increasing available funds and even reorienting previously planned lines to make them available, in many cases almost entirely, for COVID-19 purposes.

The Inter-American Development Bank (IDB) and the subregional development banks, namely the Development Bank of Latin America (CAF), the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CDB), have committed around US\$ 8 billion and US\$ 12 billion, respectively, to the fight against the pandemic. In total, these subregional and regional banks between them have contributed amounts equivalent to 0.45% of GDP and 1.9% of the region's exports of goods and services.

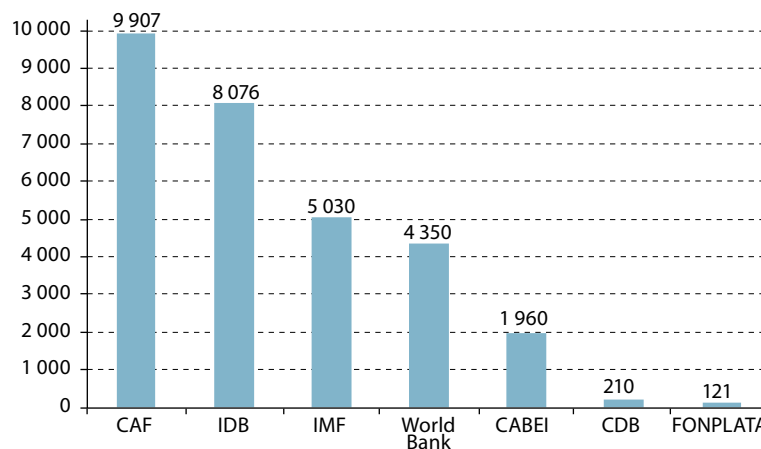
These funds have been used to finance emergency programmes, including health measures, and to provide contingent credit lines. In contrast to the multilateral banks, such as the World Bank, the expansion of lending by regional banks (such as IDB) to cope with the effects of COVID-19 exceeds that which took place after the global financial crisis of 2008–2009.

For their part, multilateral banks made significant efforts at the global level to address pandemic-related needs; however, multilateral disbursements, strictly defined (by IMF and the World Bank), to address the effects of the pandemic in the Latin America and Caribbean region lagged behind the financing efforts of regional (IDB), subregional (CAF, CABEI and CDB taken together) and, especially, national development banks.

According to Fleiss (2021), as the World Bank concentrated on poorer regions, regional banks came to the fore in Latin America from 2010 onward. Thus, by 2019, IDB would be the main lender in the region, accounting for 41% of the funds approved for Latin America and the Caribbean, while CAF would be in second place, accounting for 33%.

In 2020, CAF, with a loan portfolio directly targeting the COVID-19 crisis that approached US\$ 10 billion (representing 35% of its total loan portfolio as of March 2021), became the leading provider of financing in the region, surpassing not only the World Bank but also the US\$ 8 billion in loans provided by IDB. Meanwhile, the financial support provided for these purposes by subregional institutions that are smaller than those mentioned above, such as CABEI, CDB and FONPLATA, amounted to US\$ 1.96 billion, US\$ 210 million and US\$ 121 million, respectively (figure 2).

Figure 2
Latin America and the Caribbean: total amounts allocated by multilateral, regional and subregional banks for COVID-19, January 2020 to February 2021
(Millions of dollars)



Source: Prepared by the authors, on the basis of official information, press clippings and G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, unpublished.

Note: CABEI updated its financial support to US\$ 3 billion in December 2021, after the period covered by this document.

The previous paragraphs set out the total amounts disbursed by multilateral, regional and subregional banks. A brief summary will now be provided of the respective strategic plans and priorities of each of the development finance institutions included in figure 2 for responding to the pandemic in their sphere of action, particularly in Latin America and the Caribbean.

1. International Monetary Fund (IMF)

The priorities and strategies of the International Monetary Fund (IMF) for dealing with the COVID-19 crisis focused on providing liquidity to its member countries, but in particular on providing greater support to the most vulnerable countries by making various tools available to governments, including technical and analytical tools and assistance for closer coordination with other institutions as well as direct financial resources.

Early in the pandemic, IMF announced the availability of financial resources to support member countries during the health crisis and, in particular, to address the economic impact of social distancing and lockdown measures. Because of its scale, the institution has a total lending capacity of close to US\$ 1 trillion. The Fund offered low-income countries access to fast-disbursing emergency financing of up to US\$ 10 billion (corresponding to 50% of the quota of the members concerned), even if these countries did not have an ongoing development programme with the institution. IMF also made its Rapid Financing Instrument available to other members for emergency financial support during the contingency or recovery phase. This instrument has about US\$ 40 billion that can be used for lending to emerging markets in need of additional resources.

In addition to the financial tools mentioned above, IMF announced that it also had a US\$ 200 million Catastrophe Containment and Relief Trust (CCRT) designed to provide grants to eligible countries to help alleviate their debt to the Fund. The IMF Executive Board approved changes to the CCRT in response to the crisis to be able to focus on providing support for the most urgent needs and to broaden the access criteria in the circumstances created by a global pandemic. In accordance with this decision, all member countries with a per capita income below the World Bank operational thresholds for concessional support will be eligible for debt service relief for up to two years.

As noted above, the region's countries had accessed about US\$ 5 billion from the IMF for purposes related to the COVID-19 pandemic crisis at the time of writing. This is a minor sum in relation to its potential capacity, particularly when compared to what was provided by regional development finance institutions. This behaviour is essentially explained by the fact that the main focus of the Fund's financing was on low-income countries, while the region, notwithstanding enormous disparities within its countries, is mostly considered middle-income.

2. World Bank

The COVID-19 response strategy of the World Bank, which is one of the main sources of financing and technical assistance for developing countries, focused on policies and resources to support countries' financial and technical solvency as they sought to cope with the crisis. Among its strategic priorities, the World Bank proposed to respond with supportive interventions in the area of public health to ensure the timely supply of essential medical supplies and equipment, and interventions with the private sector to help sustain employment and keep businesses operating.

The Bank proposed to disburse up to US\$ 160 billion over 15 months in support of efforts in more than 100 countries to protect the most vulnerable and marginalized groups in this health and economic emergency. This included US\$ 50 billion in fresh resources from the International Development Association (IDA), which is funding that can be used for concessional loans and grants.

In order to mitigate the consequences of the pandemic, by the end of April 2020 the World Bank had already disbursed around US\$ 2 billion to assist countries in Latin America and the Caribbean, with the following order of priorities: strengthening their health systems and health capacities; mitigating

the economic impact of the pandemic on societies and governments; and working with partners and the private sector to support logistics chains and product deliveries. At the time of writing, the World Bank had disbursed some US\$ 4.4 billion in COVID-19 crisis funding to the region.

Among the recipient countries and the instruments used, projects were approved for Argentina, Ecuador, Paraguay, Haiti, El Salvador, Honduras, the Plurinational State of Bolivia and Uruguay. In addition, the activation of Catastrophe Deferred Disbursement Options (CAT-DDO) in the Dominican Republic, Panama, Colombia and Honduras was announced, as was the restructuring of a health project already under way in the Plurinational State of Bolivia prior to the pandemic and the reallocation of funds under the Contingency Emergency Response Component (CERC), which has now been carried out in Dominica, Haiti, Saint Vincent and the Grenadines, Saint Lucia and Suriname.

3. Inter-American Development Bank (IDB) Group

The IDB Group's response to the pandemic totalled US\$ 8.076 billion, representing 27% of the regional development bank total. The prioritization strategy focused on financing to meet immediate public health needs, guarantees for vulnerable populations, economic productivity and employment measures and fiscal measures to help mitigate the economic impacts.

Right from the start of the crisis, IDB Group reinforced its financial support to the countries of the region, as well as the provision of technical advice for the design and implementation of effective public policies to respond to the challenges of the emergency, increasing the volume of available funding and adapting its lending instruments to make it easier and quicker for its member countries to obtain loans. IDB implemented a set of platforms to disseminate information and knowledge among the countries of the region, in order to facilitate access to the technical knowledge developed by the institution over the years and to streamline dialogue with national governments and international organizations dealing with the challenges of the pandemic.

IDB reprogrammed its existing portfolio of health projects to prioritize needs arising from the crisis, making available extra resources on top of the lending programme approved the year before the pandemic. The Bank also offered national governments the option of redirecting resources available in the portfolio of projects already being implemented so that they could be used as a matter of priority to respond to new coronavirus-related needs. In addition, the Bank made available to the region's countries more than US\$ 7 million in non-reimbursable resources from the 2020 Call for Proposals for the Regional Public Goods Initiative, whose purpose is to finance proposals for cooperation and regional policy coordination in the framework of the COVID-19 response.

Within the Group, IDB Invest has made available up to US\$ 5 billion to support economic mitigation and recovery efforts, the great bulk of which forms part of its investment programme aimed primarily at companies suffering from the negative consequences of the suspension of commercial and production activities. In addition, IDB Invest has proposed the development of a new mechanism (worth US\$ 500 million) to mitigate the crisis by increasing access to short-term credit for SMEs, as well as financing supply chains through financial institutions, with priority for investment projects in the health sector that respond to the challenges posed by the pandemic.

In parallel with the financial measures described above, the Group has proposed to develop new procedures to streamline fiduciary processes and approval times for operations in order to improve and accelerate its support to the region at this critical time, given the demands imposed by the health emergency.

4. Development Bank of Latin America (CAF)

In terms of financing responses to the pandemic, CAF was the largest lender in the region. It directed most of its efforts towards the government sector, easing budgetary constraints with US\$ 9.9 billion in credit lines for the different countries in the region in addition to non-reimbursable financing of US\$ 400,000 for member countries, representing 33% of the total provided by regional banks.

Like other multilateral financial institutions, CAF set out to provide support to Latin American countries in a swift and appropriate manner, using a variety of financial and technical resources and instruments to support the policies and lines of action implemented by governments in the region to deal with the health crisis and its economic impacts.

The institution identified two core priorities, in line with those established by other multilateral financial institutions: the continuity of companies' operations and the preservation of jobs. In order to mitigate the social and economic impacts of the crisis, CAF included an emergency credit line of US\$ 2.5 billion to support countercyclical programmes adopted by the different member countries. The bank also incorporated a contingent credit line of up to US\$ 50 million per country to go directly to public health systems and the protection of the most vulnerable.

5. Central American Bank for Economic Integration (CABEI)

The Central American Bank for Economic Integration (CABEI) responded to the coronavirus pandemic by launching the Emergency COVID-19 Support and Preparedness and Economic Reactivation Programme, the objective of which is to contribute to the prevention and containment of the health emergency facing member countries. The priorities highlighted in the strategy are centred on actions to strengthen the regional economy during the downturn resulting from the suspension of activities and during the subsequent recovery phase.

The elements of the emergency COVID-19 pandemic support programme were based on:

- Emergency support with non-reimbursable funds of up to US\$ 8 million (resources provided to the countries of the Central American Integration System (SICA)).
- Procurement and supply of medicines and medical equipment for the timely detection of COVID-19, with up to US\$ 2.1 million available.
- Financing of public sector operations worth up to US\$ 600 million (US\$ 400 million for SICA countries and US\$ 200 million for other countries). Public sector operations were to be financed for amounts not exceeding US\$ 50 million per country.
- Central Bank Liquidity Management Support, a line of action for which up to US\$ 1 billion is available to both founding and non-founding members of the bank.
- Support for the financial sector to contribute to the reactivation of economies through the use of different financial products with an emphasis on supporting micro, small and medium-sized enterprises (MSMEs), worth up to US\$ 350 million.

At the time of writing, the CABEI response to the pandemic in the region totalled US\$ 1.960 billion.³

6. Caribbean Development Bank (CDB)

To address the health emergency and its repercussions, the Caribbean Development Bank (CDB) made some US\$ 210 million in support available to borrowing member countries in the Caribbean region to mitigate the economic impact of the crisis.

The Caribbean subregion is even more vulnerable than countries in other regions owing to a combination of the collapse of tourism, one of its main sources of income, and its exposure to natural disasters, especially hurricanes.

The CDB strategy for intervening in this crisis was based on support for regional economies that might suffer a severe economic downturn (production activities, businesses and jobs). To this end, the bank increased its lending limits to support economic growth and poverty reduction, offering financing and technical assistance to the most vulnerable countries and sectors in the region, and to strengthen safety nets.

³ CABEI updated its financial support to US\$ 3 billion in December 2021, after the period covered by this document.

7. FONPLATA Development Bank

To be able to respond strategically to the effects of the pandemic, FONPLATA (formerly known as the Financial Fund for the Development of the River Plate Basin), acting as a subregional development bank whose objective is to deepen the integration of the countries of the River Plate Basin (Argentina, Brazil, Paraguay, the Plurinational State of Bolivia and Uruguay), allocated US\$ 119 million in credit lines and US\$ 1.5 million in non-reimbursable technical cooperation to its member countries, representing in total 51% of its approved operations.

This amount was distributed among different priority sectors identified by the bank, with 30% being used directly for the health emergency (medical equipment, recruitment of staff and expansion of clinical capacity), 50% to maintain economic activity by providing financial assistance to microenterprises, and the remaining 20% to help households cope with social isolation measures by strengthening food services and boosting the distribution system.

This section has presented the funding amounts, measures and strategic priorities implemented by the different institutions making up the multilateral, regional, subregional and national development banking system of Latin America and the Caribbean to help their member countries secure the resources and tools necessary to cope with the health, social and economic crisis caused by the COVID-19 pandemic.

Considering that the objective of the present study is to contribute to the debate on the role of development banking as discussed in the introductory chapter, the findings that emerge from the information and analysis in this chapter confirm the claims made for the capacity of development banks to spread resources countercyclically in highly uncertain environments, promoting economic stability through lending in times of crisis. It should be noted that all the institutions included in this study made major efforts to participate in and contribute to countercyclical financial support associated with the COVID-19 crisis. However, it must also be said that the measures identified were essentially focused on alleviating the immediate effects of the crisis. The shift in priorities that this represented meant that the medium- and long-term vision required for sustainable development (and expected to be part of the characteristic contribution of development banks) was left somewhat in abeyance at this stage.

It should also be noted here that the role of development banks in the region came more to the fore with the collapse, most strikingly in 2020, of the large Chinese investment and financing flows that had been coming into the region and the drying up of other private flows. As shown by the analyses in this section, their new prominence has been due particularly to their role in providing vital countercyclical finance in times of crisis, but also to their ability to serve segments left uncovered by the private financial sector.

This section also points to conclusions similar to those arrived at by Fleiss (2021), since it shows that during the selected period (the 2020–2021 pandemic crisis), multilateral and regional development banks actually served mainly the poorer countries and smaller economies of the region (i.e., Guatemala, Honduras and the Plurinational State of Bolivia), while larger and medium-sized economies in the region were able to cover their emergency financing needs mainly from resources made available by national development banks. The conclusion, then, is that while regional and multilateral development banks in Latin America and the Caribbean will continue to be essential in financing the development, principally, of lower-income economies, whose agents have less access to financing, measures to strengthen national development banks in the countries of the region will clearly be crucial for the development of the regional bloc as a whole, given that these institutions mainly support middle-income economies, a category into which an absolute majority of the region's countries fall.

The following section shows how development bank financing for COVID-19 was distributed between the different sectors or economic agents.

II. How development banks responded to COVID-19: financial support by sector and economic agent

The abrupt economic slowdown due to the measures taken to avoid contagion created complications for all economic agents. This section will focus on the sectors and economic agents that received finance, using and analysing the database constructed by the authors to capture the funding amounts, priorities and measures implemented by development banks to alleviate the effects of the pandemic crisis. Governments required finance mainly to strengthen public services and meet the needs of the population, while households required it to maintain a minimum level of consumption. In turn, the analysis in this section differentiates between financing oriented towards the private sector as a whole, to maintain production, and financing targeted exclusively at MSMEs, the main generators of employment in the region, which needed working capital to survive. It also includes an analysis of financing for the health sector, which it was crucial to keep supplied with resources and assistance throughout the pandemic.

In general terms, the actions of national and regional development banks in Latin America and the Caribbean in response to the pandemic crisis particularly emphasized the objective of economic reactivation. The primary agricultural sector and the service sector were the leading recipients of funds provided by national development banks. Regional banks in Latin America, for their part, focused on helping to maintain countries' fiscal equilibrium, thus allocating most of their funds directly to the government sector (the main beneficiary), while also emphasizing the allocation of resources to the health sector.

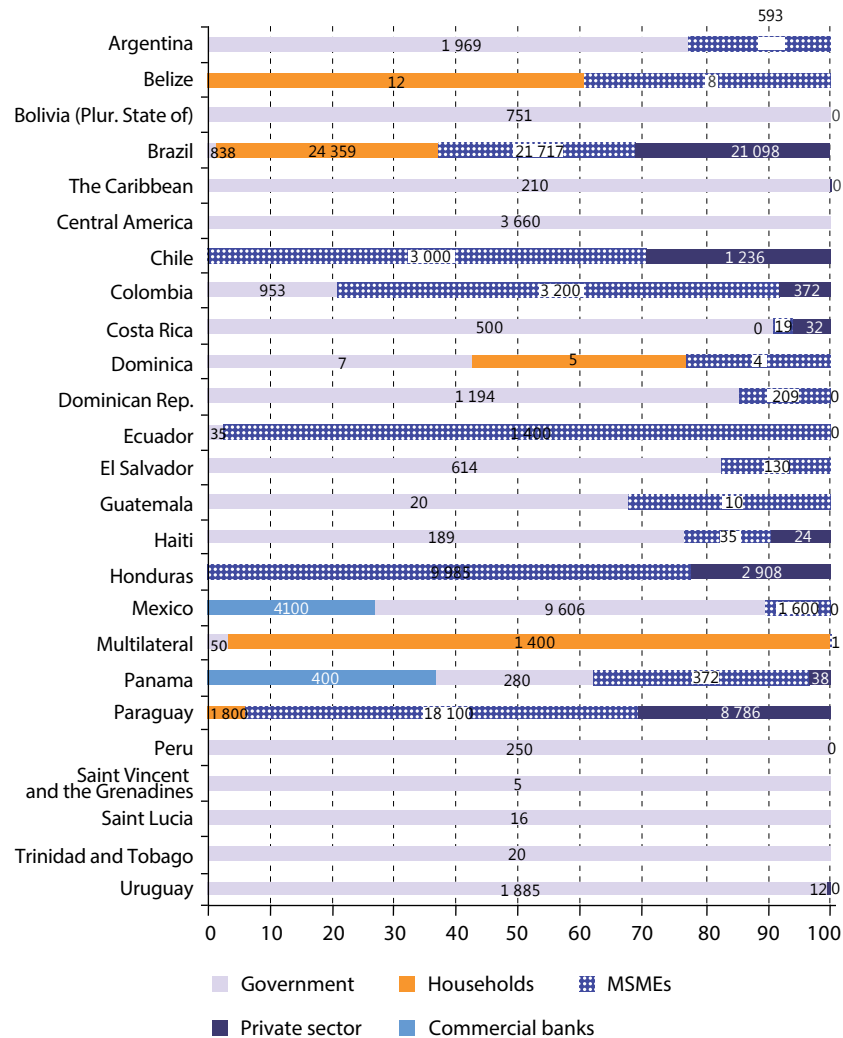
At the same time, one of the priorities of national development banks was to revive the economy, with an emphasis on maintaining activity in different parts of the private production sector (the main beneficiary). The countries in which funds went mainly to government were those where regional banks play a leading role. This is the case with a number of Caribbean and Central American countries. Uruguay is a special case, as funds from national banks also went to relieve the public sector.

To take some examples of particular cases, the following may be mentioned. In Colombia and Chile, development bank funds were mainly earmarked for MSMEs. In the case of Brazil, funds were allocated almost evenly, although MSMEs accounted for the largest share, followed by households and the private sector, while the government sector received the smallest share. Mexico's domestic banks targeted only the private sector, with 77% of funding going exclusively to MSMEs. The only country

where national development banks offered direct financial support to commercial banks was Paraguay (US\$ 400 million). The remaining 91% of contributions to commercial banks were made by regional banks.

In Central America, US\$ 1.96 billion was allocated to governments through cooperation from the subregional banking system (CABEI). Of the total of US\$ 8.133 billion provided by all development banks (national, subregional and regional) to the subregion, 62% went to the government sector, 20% to MSMEs and 17% to households.

Figure 3
Latin America and the Caribbean (selected countries and groupings): COVID-19 funding from national and regional or multilateral development banks, by sector and country
(Percentages and millions of dollars)

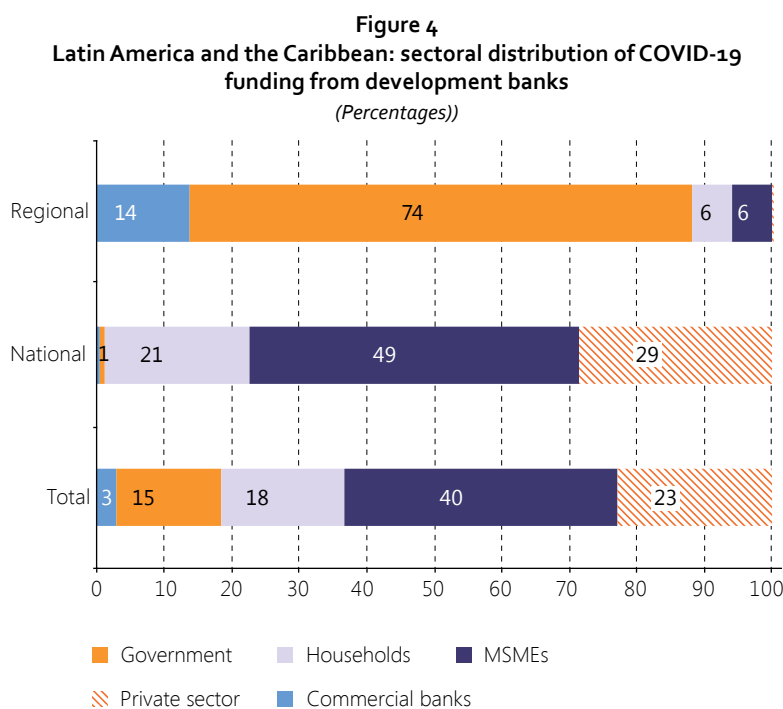


Source: Prepared by the authors, on the basis of official information, press clippings and G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, unpublished.

Note: The figures for Central America, Latin America and the Caribbean, and the Caribbean relate solely to regional disbursements.

Regional development banks devoted their efforts to strengthening the government sector by alleviating the fiscal burden caused by the pandemic, allocating 74% of their total COVID funds to

this, while the rest was spread between commercial banks (14%), households (6%) and MSMEs (6%). Conversely, domestic banks made practically no contribution to fiscal equilibrium (0.9% of the total funding allocated), as they focused on maintaining economic activity by supporting mainly the private sector, which received 78% of the funding allocated, with 49% of this going exclusively to MSMEs and 21% to households (figure 4).



Source: Prepared by the authors, on the basis of official information, press clippings and G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, unpublished.

Of the funding allocated by national development banks, 96% was accounted for by five countries: Brazil (62%), Peru (17%), Mexico (11%), Colombia (4%) and Chile (3%). Of the remaining 4%, 3% was accounted for by El Salvador, Panama and Paraguay. Almost no funding went to the government sector in any of these countries, which shows that national development banks have the experience to direct funds to vulnerable sectors without needing an additional intermediary, as regional banks do.

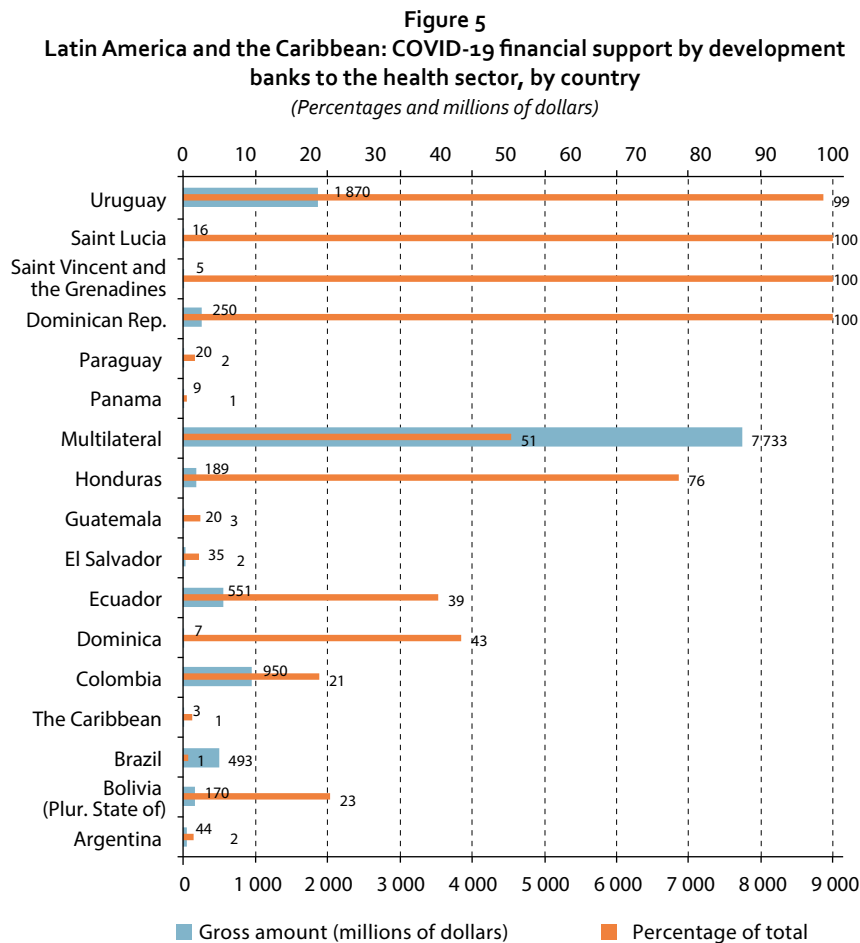
At the same time, it can be seen that the priority of these banks was to enable the economy to continue functioning, while regional banks focused more on the health sector, with 39.5% of their funds going to projects that had a health component, compared to 0.5% for national banks. The following section will analyse the instruments used for these purposes.

There have been criticisms of the way multilateral banks allocate their funds. For example, Dreher, Lang and Richert (2019) show that the World Bank Group tends to prioritize lending to companies belonging to its major shareholders. These development banks may allocate their funds for reasons unrelated to their mandate, such as profit, nepotism or politics. For these reasons, lack of transparency and accountability in the way they operate is a latent concern (Van Huijstee and others, 2016).

In the case of COVID-19, however, they dispelled the doubts by allocating their funding to governments, which they assume to be better informed about the needs of their populations, and leaving it up to them to translate it into measures to alleviate the crisis. If this information is combined

with the findings of the previous section, it can be seen that politicians in poorer countries have greater responsibility for channelling funds (which can lead to institutional conflicts), while in larger economies, COVID-19 funding tends to be decentralized, being dealt with by development banks.

The health sector received most of its funds from the regional development banks, via lending to governments. The national development banks that were most active in this area were those of the Plurinational State of Bolivia and Uruguay. Although Brazil was the country where the most lending went to the health sector, owing to the size of its economy and population, the amount was fairly small in relative terms. In countries such as Saint Lucia, Saint Vincent and the Grenadines and the Dominican Republic, all funding came from multilateral banks, and all of it was for health spending (figure 5).



Source: Prepared by the authors, on the basis of official information, press clippings and G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, forthcoming.

III. The response of development banks to COVID-19: the main instruments

The previous section showed that, in general terms, regional development banks devoted the vast majority of COVID-19 funds to strengthening the government sector, while national development banks focused mainly on sustaining economic activity, with support going mainly to the private sector, most particularly MSMEs. In turn, this specialization in the destination of loans shaped the kind of financial instruments used by the two types of development finance institutions in the region to deal with the pandemic crisis.

In the case of the regional development banks, more than 99% of the amounts disbursed by these institutions in response to COVID-19 took the form of loans, the rest consisting of US\$ 51 million worth of non-reimbursable financing with a strong non-financial technical assistance component.

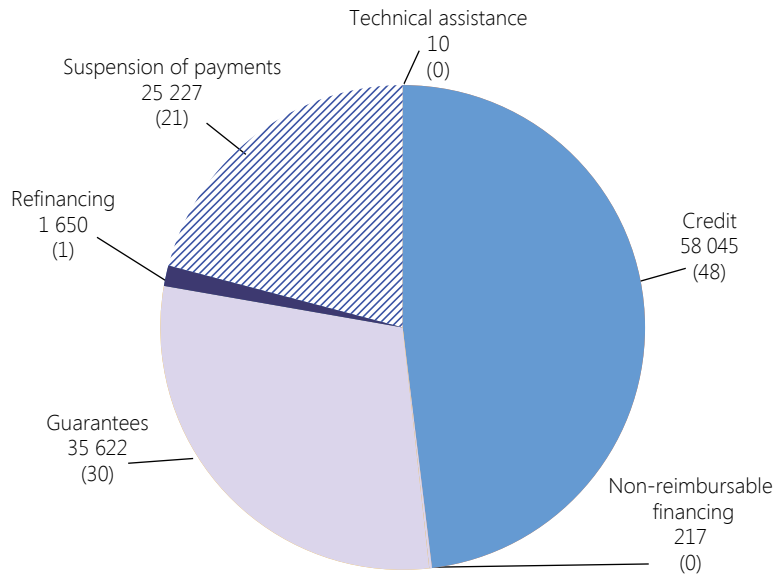
For their part, national development banks used various instruments to provide liquidity support, with 48% of the amounts disbursed taking the form of lending and 2% of refinancing plans, while 21% consisted of payment suspensions and 30% of guarantees provided to enable producers to make new loans that helped them continue in business, this being the most dynamic instrument for reactivating credit to SMEs (figure 6).

Indeed, Arrow and Lind (1970) showed that when risk was spread in small amounts over a considerable number of investors, capital could be priced in a risk-neutral way. States could use their capabilities to spread risk over large populations and thus solve problems of commitment or monitoring among atomized agents. Setting out from this, Anginer, De la Torre and Ize (2011) carried out a conceptual analysis, proving that guarantees made it possible not only to absorb risk, but to coordinate agents in order to arrive at an optimized risk-sharing equilibrium.

Thus, guarantees allow risk to be absorbed and shared, making them, according to Griffith-Jones and others (2020), the most effective instrument in an environment of high risk or high risk aversion, which exactly describes the crisis caused by the pandemic, and also in the case of idiosyncratic risks, as with the region's financial markets.

It is therefore not surprising that guarantees rank second among the instruments most used by development banks during this crisis. Even so, Griffith-Jones and others (2020) point out that, in extreme risk environments, the level of guarantees needed to catalyse private investment could be close to 100%. In the cases on hand, though, their value appears to be multiplied. For example, the US\$ 3 billion guarantee offered to small and medium-sized enterprises by Chile's FOGAPE is expected to mobilize US\$ 24 billion.

Figure 6
Latin America: support from national development banks to deal with the effects of COVID-19, by type of instrument, 2020
(Millions of dollars and percentages of the total)



Source: Prepared by the authors, on the basis of official information, press clippings and T. G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, unpublished.

Guarantee schemes became an important instrument for supporting MSMEs during the pandemic (figure 6). Guarantee schemes have been one of the instruments most widely used by development finance institutions to support the productive sector in the effort to counteract the effects of the pandemic.

Many businesses, especially MSMEs, have faced unprecedented liquidity constraints during the pandemic. Given their advantages, and despite the financial risks they carry, guarantee schemes have emerged as a potentially effective tool to address the liquidity gap faced by MSMEs. This instrument is attractive because of its speed (where it has already been implemented) and its low budgetary costs, especially compared to other instruments such as loans and grants.

Credit guarantee schemes have three important advantages. The first is that they allow the financial system to increase the supply of credit. With the support of guarantees, financial institutions can expand their supply of financing for companies whose financing conditions are suboptimal because they are not in a position to offer adequate guarantees but which nevertheless have the capacity to manage a higher level of capital.

In the second place, a guarantee scheme can give a larger number of enterprises access to the formal financial system. With the support of a guarantee instrument, enterprises that do not have sufficient collateral, as well as start-ups, new enterprises and those with little experience to cover their credit needs, can be given access to finance.

In the third place, guarantees improve credit conditions. The interest rates, value and repayment terms of loans can evolve positively because the guarantee mechanism mitigates risk for financial institutions.

Guarantees are mainly intended for MSMEs. These are a priority because of their vulnerability to the impact of the pandemic and their importance for employment. In some cases, however (Chile, Colombia, Costa Rica, Uruguay), large companies have also benefited.

Credit was another important instrument used by development banks to address the challenges of the pandemic. The total value of the 130 loans recorded in the database (Cipoletta Tomassian and Abdo, 2021) whose amounts were made public is calculated at US\$ 87.648 billion. Loans are the instrument most widely used by development banks globally (Griffith-Jones and others, 2020). The COVID-19 pandemic in Latin America and the Caribbean was no exception, with lending operations accounting for 48% of total financing. While non-reimbursable financing mainly went to governments, the bulk of lending was to the private sector.

MSMEs received the largest share of loans, totalling US\$ 34.695 billion, spread over 45 operations, with the rest of the private sector receiving US\$ 23.341 billion in 30 operations. In terms of working capital provision, loans and grants usually come with conditions, such as maintaining employment and wages (Griffith-Jones and others, 2020), and these conditions were also applied in the case of the pandemic crisis. Governments, for their part, received US\$ 22.108 billion in 49 lines of credit, in addition to a US\$ 731 million suspension of payments by Brazil's BNDES.

Although loans entail higher leverage, during the pandemic they were much preferred to equity financing, which has higher transaction costs, requires longer lead times and is more difficult to price in an environment of high uncertainty.

Accordingly, the focus was on ensuring that enterprises, especially small and medium-sized ones, which employ more than half the labour force in the region, could cope with production problems and secure working capital despite low demand. Support for households was mainly provided through governments, logically enough, as they have more political pressure and information about the needs of the population.

The most widely used instrument for households was the suspension of payments, with three operations in Brazil totalling US\$ 25.089 billion and one in Paraguay worth US\$ 137 million. There were another seven operations of this nature whose amounts were not disclosed. This instrument was essential for households that ceased to receive income in the context of the pandemic, and it also allowed banks to avoid renegotiating contract terms, which in this context would have been difficult and expensive. In addition, Benford, Ostry and Shiller (2018) argue that payment suspensions improve credit quality, thereby increasing the likelihood of repayment.

Since it is not usually the role of development banks to provide assistance in the form of money or consumer goods directly to households, suspension of payments was the appropriate method for enabling these economic agents to maintain consumption during the pandemic. It should be emphasized that while guarantee amounts are multiplied, payment suspensions are only temporary, meaning that repayment will still be required, but with a waiver of interest for the pandemic months.

Measures for the private sector and MSMEs focused mainly on providing working capital so that firms could maintain their workforces and mitigate the effects of the pandemic on unemployment. Fewer measures were deployed for households, as this is a more homogeneous sector. The fairly comparable amount involved is explained by suspensions of consumer credit to mitigate the effects of unemployment on poverty.

In turn, the allocation criteria for development bank beneficiaries were progressively adapted to the context of the pandemic crisis in order to make some corrections to credit policy, particularly with a view to expanding coverage.

Technical assistance proved to be an instrument that provided greater security to all actors involved, especially in a crisis situation, as it helped both to reduce certain information asymmetries between lenders and borrowers and to improve the efficiency of governments' handling of financing issues in dealing with the pandemic. Indeed, technical assistance was directed mostly at the government and private sectors.

In addition, differentiated credit strategies for subnational territories were implemented (e.g. in Argentina and Colombia). First-tier credit programmes were developed in which the public sector took direct responsibility for funding MSMEs.

National development banks implemented various measures to support MSMEs, but also created lines of guarantees aimed at specific segments with different conditions, including lines for large companies affected by the pandemic. Credit guarantee systems were updated by launching new programmes, increasing the amounts available and modifying operating parameters to reduce costs and expand coverage and the economic sectors targeted (large enterprises, informal enterprises and microenterprises).

It is also recognized that there has been an effort to streamline digital procedures, for SMEs and especially in the agricultural sector. For example, Costa Rica's Development Banking System (SBD) created a platform for vertical collaboration between the different parties involved in production and distribution, thus enabling the production chain to be fully integrated without creating any anti-competitive friction.

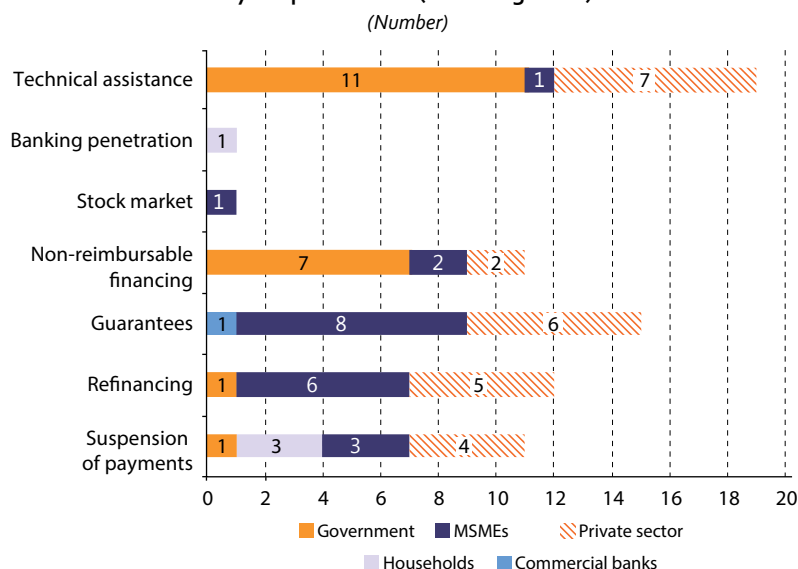
Indeed, digitalization and streamlined procedures to make financing effective were essential in this pandemic crisis. Thus, IDB reduced its processing time by two thirds by developing prototypes to pre-approve economic analysis, monitoring and evaluation. As a result, loans could be approved and disbursed in one and a half to two months. CBD stated that the funding needs of central and local leadership groups or command offices for epidemic prevention and control, including their various divisions, should be responded to within 24 hours, and those of companies involved in epidemic prevention and control within 48 hours (Griffith-Jones and others, 2020).

Similarly, an effort was made to facilitate banking penetration in the most disadvantaged sectors. The private sector and MSMEs were also able to apply for suspension of loan repayments and for loan refinancing (mainly MSMEs) on favourable terms. In addition to reaching these two sectors, guarantees were used to enable commercial banks to engage in first-tier lending. After credit, the instrument most used by regional banks was technical assistance, which was mostly directed towards governments (11 out of 19) (see figure 7).

Of the 200 measures by national development banks that could be compiled in the database (Cipoletta Tomassian and Abdo, 2021), the productive sector accounted for the greatest share, with a total of US\$ 94.888 billion spread across 120 measures, of which 66, worth US\$ 60.382 billion, were exclusively for MSMEs. It was followed by households with US\$ 27.576 billion and 7 measures, government with US\$ 23.051 billion and 68 operations, and commercial banks with US\$ 4.5 billion and 2 operations.

In summary, non-reimbursable financing was granted by regional banks and directed mainly to governments, while national banks granted loans mainly to the private sector, especially MSMEs. The main lending objective was to provide the private sector with capital to avoid the shutdown of activities, thus preventing large-scale bankruptcies that would have had repercussions for employees and consumption. At the same time, households benefited from payment suspensions that alleviated their difficulties and prevented them from swelling the list of risky borrowers.

Figure 7
Latin America: instruments and measures used in development banks' COVID-19 support,
by recipient sector (excluding loans)



Source: Prepared by the authors, on the basis of official information, press clippings and T. G. Cipoletta Tomassian and T. Abdo, "Base de datos sobre financiamiento de la banca de desarrollo para COVID-19", Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021, unpublished.

Development banks sought to optimize their instruments by sector in order to maximize their operations and their impact. By preventing credit from declining and businesses from going bankrupt, they also sought to ensure that the impact of COVID-19 would not persist into the future. Thus, development banking came to play a leading role in minimizing hysteresis from the crisis.

By its nature, the crisis caused by COVID-19 is considered a short-term shock. However, this temporary shortfall in production and demand affects the future potential of the economy. This being so, the "new normal" could involve debt-stricken households and bankrupt businesses. If it is followed by a vicious circle in which neither consumption nor supply is able to establish itself as the engine of the economy, the exit from the pandemic could lead to prolonged stagflation or even deflation.

There is thus a need for spending to mitigate the prolonged loss of output. Here, a policy of expanding public debt would have paid for itself. In fact, the countries of the economic North increased their social spending sharply in this crisis. In Latin America and the Caribbean, the pandemic was accompanied by a debt crisis, so budgetary constraints meant that such policies could not be implemented.

In the type of crisis context generated by COVID-19, the long-run potential of the economy can be expected to decline even if it attains a "new normal", a situation that in economics is describable as the hysteresis effects of the crisis.

Adopted from physics, hysteresis is the phenomenon whereby the state of a material depends on its previous history, as manifested in the continuation of an effect, often as a result of inertia, even when the cause giving rise to it ceases to apply; thus, when a stimulus is removed from materials, they do not usually return to exactly their initial or original state (e.g. a metal bar stimulated by a high temperature will go back to being a metal bar when the heat stimulus is removed, but will no longer be the same length).

Applying the concept to the case in hand, development banks have been an essential actor in reducing post-crisis hysteresis by allowing firms to maintain their working capital, and thus their activity, thereby holding down the rise in unemployment. Also, by suspending household payments, development banks have allowed consumption to remain active, thus avoiding the possibility that the deflationary recession might be prolonged: a lack of consumption leads to downward pressure on the prices of non-essential goods, which consumers anticipate, thus delaying the resumption of activity. In this crisis, development banks have played a powerful role in ensuring that the "new normal", notwithstanding all the psychological and social effects of quarantine, will not be too impoverished a version of the old one.

IV. The response of development banks to COVID-19: country cases

This section provides additional information on the topic in hand by looking more closely at two cases in the region (Argentina and Mexico) with the aim of providing at least a pair of summary examples to illustrate the response of national development banks to the COVID-19 pandemic in greater detail.

A. Argentina

When the coronavirus crisis broke out, some macroprudential regulations were put in place in Argentina to increase lending to MSMEs. In March 2020, commercial banks were granted a number of benefits in respect of reserve requirements and liquidity regulations on condition that they would lend to these types of companies, at an annual interest rate of 24%. It should be noted that this rate was negative in real terms, as annual inflation was 42.4%. MSMEs could use these funds for working capital, to pay wages or to pay with postdated cheques.

This explains why Argentina does not present values as large as those in other countries. Pandemic financing in the country appears to have been carried out directly in the private sector through regulations that aligned its interests. According to Banco de Inversión y Comercio Exterior (BICE), loans worth a total of 5.25 billion pesos (around US\$ 80 million at that date) had been granted to 241,000 MSMEs by the third week of August 2020. Some 13% of these loans granted to MSMEs were guaranteed by the Argentine Guarantee Fund (FoGar), a public trust through which the government facilitates access to credit for MSMEs by granting full or partial guarantees in support of loans granted by financial institutions.

Between late March and early April 2020, against the background of the COVID-19 pandemic, BICE announced its special line of working capital to assist MSMEs, the aim being to enable them to continue paying their employees' wages and thus prevent the payment chain breaking down, especially in those sectors affected by the production constraints imposed as a consequence of compulsory isolation measures. BICE used this line to allocate 1 billion Argentine pesos (US\$ 15 million at that date) at a subsidized rate (19% in pesos) and with a 12-month repayment term via the first tier and an additional 400 million Argentine pesos (US\$ 6 million at that date) via the second tier.

BICE also set new rates for export prefinancing credits for customers with active lines. MSMEs were able to renew their operations in dollars at a special rate of 6.5% a year and large companies at 8.5%.

Through its subsidiary BICE Fideicomisos and FoGar, a mechanism was implemented to grant guarantees to companies to cover the repayment of loans for working capital, including the payment of wages and employer's contributions and coverage of post-dated cheques, provided by financial institutions to loan beneficiaries.

The total amount of the guarantee fund was provided by the Ministry of Productive Development and amounted to 30 billion Argentine pesos (US\$ 441 million as of that date). The guarantees could be used as collateral for loans in any of the commercial banks with which the SME worked.

In April 2020, BICE started to operate in the cheque discount segment again through the Argentine Securities Market, with the aim of giving companies access to working capital. In order to ensure that the financing specifically reached SMEs, operations were carried out in the subsegment of cheques guaranteed by the Mutual Guarantee Society (SGR). It is worth noting that this is not a standard BICE procedure, but that rather these are specific interventions, carried out at times of economic stress and for countercyclical purposes. The volume transacted was 642 million Argentine pesos (US\$ 10 million at that date) between April and May.

B. Mexico

An interesting country case study of national development banks' response to the pandemic is Mexico, since, as seen above, banks played an essential role in sustaining the private sector there. The institutions of the Mexican financial development system had the resources and the balance sheets to be able to implement actions and respond to the situation. Accordingly, the Ministry of Finance and Public Credit rolled out the Development Banking Programme for Economic Reactivation in Response to COVID-19, with resources of more than 61 billion pesos (see table 2). These resources have mainly been used to support the liquidity of companies in different sectors through refinancing, restructuring, new credits for working capital, extension of maturities, guarantees, etc.

In the case of the infrastructure sector, refinancing and restructuring options were established on the terms set by the National Banking and Securities Commission (CNBV) for direct borrowers of Banobras and loans syndicated with other banks, with the aim of supporting the liquidity of firms.

Table 2
Mexico's Development Banking Programme for Economic Reactivation in Response to COVID-19

Institution	Programme	Implementation actions	Amount to be financed (millions of pesos)	Millions of dollars
Banobras	Liquidity support for firms in the infrastructure sector	<ul style="list-style-type: none"> • Clients borrowing directly from Banobras and those with loans syndicated with other banks whose revenues have fallen. • Refinancing and restructuring on terms set by the National Banking and Securities Commission (CNBV). 	6 000	29 561
Nafin/ Bancomext	Liquidity support for first-tier firms	<ul style="list-style-type: none"> • Preventive loan restructuring and/or rescheduling. • Restructuring in dollars or pesos, longer maturities depending on payment capacity. • New loans can be considered to support working capital. • Case-by-case analysis. • Support for securities market guarantees. • Credits to improve the liquidity of borrowers, provided commercial banks request and participate in the financing. 	10 000	435
Nafin/ Bancomext	Liquidity support for second-tier firms	<p>Funding for financial intermediaries to extend the maturities of second-tier loans or give borrowers (longer) grace periods.</p> <ul style="list-style-type: none"> • For bank financial intermediaries, the limit is 50 million pesos for lines already arranged. • For non-bank financial intermediaries, the limit will be as set by Nafin and Bancomext, operating as a discount on lines already arranged. 	20 000	871
Nafin/ Bancomext	Guarantee programme	<p>"Second-tier programme operated with commercial banks and designed for legal or physical persons operating businesses in the commerce, industry and services sectors who have sustained financial harm because of COVID-19, with the following characteristics:</p> <ul style="list-style-type: none"> • National coverage. • Amounts up to 2 million pesos. • Funding for working capital. • Non-revolving credits. • Guarantee with guarantor or joint obligor, with a maturity of 36 months. • Six-month grace period for principal repayment." 	6 300	274
SHF	Stabilization of syndicated construction loan portfolios	<p>Extension of maturities for active loans to mitigate a temporary fall in sales:</p> <ul style="list-style-type: none"> • Active bridging loans that have not been extended will be extended for 12 months in addition to the extension allowed under the contract. • Active bridging loans that have been extended once or more will be allowed a further six-month extension. 	8 800	383
SHF	Line of financial costs to mitigate a temporary decline in economic activity	<p>Additional financing line of up to 5% of the original line to cover interest due to the sales gap. Designed for traditional second-tier bridging loans to financial intermediaries, subject to compliance with project requirements.</p>	6 000	261

Table 2 (continued)

Institution	Programme	Implementation actions	Amount to be financed (millions of pesos)	Millions of dollars
SHF	Microfinancing for home improvements	Accreditation of non-bank financial institutions (cooperative saving and loan societies (SOCAP), popular financial societies (SOFIPO), multiple purpose financial societies (SOFOM)) with financing products for credits of up to 25,000 pesos guaranteed by the National Social Housing Guarantee Fund (FONAGAVIP), preferably in the south-east of the country.	2 000	87
FND	Assistance scheme for the economic reactivation of borrowers	<p>Aimed at borrowers seeking to restructure their debts because of contingencies. It has the following characteristics:</p> <ol style="list-style-type: none"> Extension and restructuring scheme for current or non-performing loans with hydrometeorological and epidemiological risks. <ul style="list-style-type: none"> 1 to 5 year maturities (case-by-case analysis). A single payment extension of 180 days may be offered for pledge or repo loans (case-by-case analysis). No commission for restructuring. Original interest rate. Possibility of supplementary credit. Write-off scheme for non-performing loans (projects that still have viability). <ul style="list-style-type: none"> Possibility of total waiver of interest (default and ordinary). Agreed maturities. No fees or penalties. Current interest rate. Negative Credit Bureau code can be altered. Possibility of supplementary credit. In the case of financial intermediaries, these must pass on the full benefits obtained to their borrowers. 	Amount to be determined	Amount to be determined
FND	Actions to stimulate the rural economy	<ol style="list-style-type: none"> Loan extensions and restructurings. <ul style="list-style-type: none"> Up to 10 years. Period of grace for principal repayment. Possibility of fixed-rate financing. Financing of price hedges. Financing of income insurance. 	Amount to be determined	

Table 2 (continued)

Institution	Programme	Implementation actions	Amount to be financed (millions of pesos)	Millions of dollars
Banco del Bienestar	Client programme	<p>Second-tier programme, current lines with risk of B-2 or greater:</p> <ul style="list-style-type: none"> • Term extension of up to 12 months. • Grace period for repayment of principal of up to 6 months. • Extension of the credit limit up to 10% of the outstanding balance. • Downward rate revision. • Assessment of possible substitution of collateral. • Modification of the payment schedule. <p>For current lines with risk below B-2:</p> <ul style="list-style-type: none"> • Term extension of up to 12 months. • Modification of the payment schedule. • Assessment of possible substitution of collateral. <p>In the case of financial intermediaries, these must pass on the full benefits obtained to their borrowers.</p>	US\$ 2 000 (this amount is for all three types)	91
Banco del Bienestar	Linkage programme	<p>"Second-tier programme, lines for previous clients or current ones requiring an additional line to be used exclusively to generate portfolio and not to pay liabilities. Risk level of B-2 or above.</p> <ul style="list-style-type: none"> • If the client presents no significant financial changes from the previous year and has no negative history with the bank, a grace period for repayment of principal of up to 6 months may be granted. • If there are changes, a grace period for repayment of principal of up to 3 months will be allowed. In the case of financial intermediaries, these must pass on the full benefits obtained to their borrowers." 	N/A	N/A
Banco del Bienestar	Reactivation	<p>Second-tier programme: lines for new clients to be used exclusively to generate portfolio and not to pay liabilities. Grace period for payment of principal of up to 3 months. Requirements:</p> <ul style="list-style-type: none"> • Risk level of B-2 or above or accreditation by a local or international financial institution. • Must not have warning alerts registered in their Credit Bureau report. <p>In the case of financial intermediaries, these must pass on the full benefits obtained to their borrowers.</p>	N/A	N/A

Table 2 (continued)

Institution	Programme	Implementation actions	Amount to be financed (millions of pesos)	Millions of dollars
Fondo de Capitalización e Inversión del Sector Rural (FOCIR)	Extension of the period for divesting from affected firms	<p>Analysis of the impact on the value and liquidity of the company. If necessary, the divestment period will be modified:</p> <ul style="list-style-type: none"> • If the value of the company has been affected, the divestment period will be extended to provide time for the company's finances to stabilize. • If the value of the company has not been affected but there is a liquidity problem, the divestment value will be agreed and a payment term will be granted in accordance with the projected new flows. • Note: FOCIR for the direct portfolio. For the second tier, FOCIR will make recommendations to the relevant committee. 	N/A	N/A
Fondo de Capitalización e Inversión del Sector Rural (FOCIR)	Suspension of payment of the agribusiness capital investment fund (FICA) management fee	Charging of the FICA management fee will be postponed so as not to affect the liquidity of the companies invested in. This fee will be charged once the contingency has passed or at the time of divestment. However, recurrent costs will be charged in order to forestall FICA cash-flow problems. Note: FOCIR for the direct portfolio. For the second tier, FOCIR will make recommendations to the relevant committee.	N/A	N/A
Fondo de Capitalización e Inversión del Sector Rural (FOCIR)	Emergency Programme for COVID 2020 – FOCIR-SE	<p>Joint interinstitutional effort (FOCIR-SE) with matching funding from the states to create a fund estimated at up to 2,600 million pesos composed of:</p> <ul style="list-style-type: none"> • FOCIR: 300 million pesos. • Productive Development Unit (UDP): 1 billion pesos. • State governments: matching funding (1,300 million pesos). Objective: to impact the MSME sector by channelling loans of from 20,000 to 100,000 pesos with a term of four years and a six-month grace period, with a guarantor or joint obligor, at an ordinary rate of 12% per annum. 	N/A	N/A
Total			61 100	2 664

Source: Secretariat of Finance and Public Credit, "Documento relativo al cumplimiento de las disposiciones contenidas en el artículo 42, fracción I, de la Ley Federal de Presupuesto y Responsabilidad Hacendaria. Pre-criterios 2021" [online] https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/paquete_economico/precgpe/precgpe_2021.pdf.

Note: The 26 June 2020 exchange rate of 22.9715 pesos per dollar was used.

V. Conclusions and policy recommendations

The objective of this study is to make an effective contribution to the debate on the vital role of development banks in the light of a number of stylized issues arising from the behaviour of development banking institutions in the region in the recent pandemic crisis. Over its different chapters, the study has presented relevant information and analysis in pursuit of this central objective.

The study was made possible by the authors' prior development of a database that brings together the largest possible number of funding measures, priorities and amounts deployed by the multilateral, regional, subregional and national development banks of Latin America and the Caribbean to address the needs of countries arising from the effects of the COVID-19 pandemic between 2020 and 2021.

The findings of the study are significant, showing that development banks served as one of the most powerful tools available to governments to help stem the economic downturn, catalyse the financial recovery of businesses and pursue different development objectives for their populations in a particular crisis context like the one caused by COVID-19.

Indeed, the stylized facts derived from the analysis in this study clearly illustrate the three statements made in the introductory chapter about the hypotheses regarding the role of development banks: (i) their ability to disseminate countercyclical financing resources, promoting economic stability in times of great uncertainty and crisis; (ii) their ability to serve segments of the population not covered by the private financial sector, filling credit gaps and boosting demand; and (iii) their role in the implementation and financing of medium-term development strategies, to which they contribute elements of innovation and sustainability.

All the institutions included in this study made substantial efforts to participate in and contribute to the distribution of countercyclical resources by providing financial support to confront the coronavirus crisis, in line with the first of the statements regarding the capabilities of development banks. Indeed, regional, subregional and especially national development banks provided the strongest response to the pandemic.

Multilateral disbursements to address the effects of the pandemic fell short of the financing efforts of regional (IDB), subregional (CAF, CABI and CDB taken together) and especially national development banks. The Development Bank of Latin America (CAF), with a loan portfolio directly targeting the COVID-19 crisis that approached US\$ 10 billion (representing 35% of its total reported loan portfolio as of March 2021), became the leading provider of financing in the region, surpassing not only the World Bank, but

also the US\$ 8 billion in loans provided by the Inter-American Development Bank (IDB). Financial support provided along the same lines by subregional banks such as the Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CDB) and FONPLATA in direct response to the pandemic was less because they are smaller than the aforementioned institutions, but still amounted to US\$ 1.96 billion,¹ US\$ 210 million and US\$ 121 million, respectively.

The greatest effort to provide financial resources was undoubtedly made by the national development banks, with a total of more than US\$ 120 billion (between January and November 2020). This has benefited not only some of the larger economies in the region, including Brazil, Chile, Colombia, Mexico and Peru, but also some smaller ones, representing a significant proportion of GDP in cases such as El Salvador (6%) and Panama (2.8%).

Regarding the second statement about the role of development banks, the study has shown their ability to serve segments of the population not covered by the private financial sector, since in the recent pandemic crisis development banks specialized in lending to the productive sector, with an emphasis on micro and small enterprises. In relation to this, two stylized facts emerged from the findings of the study, when lending by national development banks was differentiated from regional, subregional and multilateral lending. First, regional development banks used about three quarters of their COVID-19 funds to strengthen the government sector, alleviating the tax burden generated by the pandemic, while micro, small and medium-sized enterprises (MSMEs) received less than 6% of the total. The rest of the financing went to households and banks (around 6% and 14%, respectively). In contrast, domestic banks provided virtually no direct support to government (less than 1% of the total funding allocated). Rather, they focused on sustaining economic activity, mainly by supporting the private sector, with almost 50% of funds going to MSMEs and just over 21% to households.

As a second stylized fact, it was observed in the study that this specialization in the destination of lending in turn shaped the type of instruments used by both categories of institutions. In the case of national development banks, the breakdown of loans by type of instrument shows that 48% of the total financing provided was channelled through credit, 30% through guarantees, 21% through suspension of payments and 2% through refinancing. Of these, guarantees were the most dynamic instrument. For their part, regional development banks mainly used credit to support economies affected by COVID-19 (99% of the total).

With regard to the third statement about the role development banks play in implementing and financing medium-term development strategies by contributing elements of innovation and sustainability, the study collected and summarized the main strategic decisions taken by various development banking institutions to support their countries with the resources and tools needed to cope with the health, social and economic crisis caused by the COVID-19 pandemic. In this regard, it was observed that, although each country prioritized one or another economic agent, the instruments remained similar, with some room for innovation, especially in the area of technical assistance. For example, interest rate reduction was a constant with all Latin America's national development banks. Interest rates are determined not only by supply and demand factors but also by information asymmetries that hold down credit. In the case of this pandemic, however, both renegotiation of the cost of credit and extension of repayment terms made it possible to enlarge the sectors reached by it in order to maintain the working capital of businesses during lockdowns.

In this framework, the pandemic presented itself as an opportunity to change the view of risk in the banking market as a whole, since development banks not only acted as potential competitors in the local financial system, serving to regulate the market, but also set an example. Indeed, the performance of national development banks in response to the pandemic in Latin America and the Caribbean shows that the supposed risks related to the repayment capacity of the most disadvantaged sectors on which private banks base their decisions may be false, implying that credit rationing is not a strategy that maximizes profitability.

¹ CABEI increased its financial support to US\$ 3 billion in December 2021, outside the period covered by this document.

However, the findings of the study also indicate that the measures identified were basically focused on alleviating the immediate effects of the crisis, a shift in priorities which meant that the medium and long-term vision which is required for sustainable development, and which is expected to be part of the characteristic contribution of development banks, was somewhat in abeyance at this stage.

The study also stressed that the role of development banks in Latin America and the Caribbean at this stage became even more remarkable in view of the simultaneous collapse, in 2020, of investment and financing flows from China, in addition to the stemming of other private flows, which are very important in the region. In any event, this does not detract from the argument about the fundamental countercyclical financing role of development banks in times of crisis, but rather points up their ability to serve segments not covered by the private financial sector.

The study also found another stylized fact of interest during the selected period (the 2020–2021 pandemic crisis): multilateral and regional development banks mainly served the poorest countries or smallest economies in the region (i.e. Guatemala, Honduras and the Plurinational State of Bolivia), while the larger and medium-sized economies in the region were able to meet their emergency financing needs mainly from resources provided by national development banks. It is therefore concluded that while regional and multilateral development banks in Latin America and the Caribbean will continue to be vital for financing the development chiefly of lower-income economies, whose agents have less access to financing, strengthening national development banks in the countries of the region will clearly be crucial for the development of the regional bloc as a whole, given that these institutions mainly support middle-income economies, the category into which an absolute majority of the region's countries fall.

Development banks sought to optimize their instruments by sector in order to maximize their operations and their impact. By avoiding credit reduction and minimizing business failures, they also sought to avoid the economic impact of COVID-19 continuing strongly into the future. Development banks thus became major actors in minimizing hysteresis from the crisis.

The economic crisis caused by COVID-19 is temporary in nature, a demand and supply shock whose effects may be protracted into the long run. Because it has reduced households' ability to save and consume, while at the same time reducing productive capacity, actual GDP can be expected to fall below pre-crisis potential GDP, not only during the pandemic years, but also in those that follow.

This is why we have adopted the concept of hysteresis from physics: when a stimulus is removed from materials, they usually do not return to exactly their initial or original state (e.g. a metal bar stimulated by a high temperature will go back to being a metal bar when the heat stimulus is removed, but will no longer be the same length). Likewise, once the pandemic is over, its effects could linger in households and businesses in the long run, so that although a "new normal" might be reached, it would entail lower economic potential. This is why it makes sense in economics to speak of hysteresis effects from the crisis.

This being so, the intervention of development banks has been crucial not only to alleviate the temporary effects of the crisis, but also to prevent the economy being permanently held back and to reduce the latent risk of future recessions resulting from the current one. By limiting hysteresis from the crisis, development banks played a powerful role in ensuring that the "new normal", notwithstanding all the psychological and social effects of quarantine, would not be so impoverished a version of the old one.

The analysis undertaken allows us to see the important role that development banks, and especially national banks, have taken on as key actors in the provision of financing in this pandemic, but it also raises questions about some outstanding challenges, encouraging us to continue to take the analysis forward in the future and to outline the following recommendations:

- Review financial regulations and credit policies to strengthen the incorporation of countercyclical criteria and stimulate sustainable development, particularly to deal with contexts of great instability.

- Improve the coordination and strengthening of cooperation by regional, subregional and national banks with multilateral development banks and other development finance institutions operating in the region, in order to increase lending capacity and enable financial responses to be provided in crisis situations from a position of better consolidated preparedness.
- Pursue higher levels of capitalization and more flexible lending criteria in order to expand the lending capacity of development banks as the region requires.
- Stimulate financing in priority sectors that affect each crisis (i.e. health care, small producers and service providers) through innovative instruments that foster the financial inclusion of households and enterprises.
- Redirect the efforts of development banks to promote productive credit in support of industrial and capital formation policy.
- Expand and institutionalize guarantee schemes as a substantial instrument for development banks.
- Promote the adoption of environmental sustainability frameworks and the development of green financing instruments.
- Give a real boost to national development banks in the region as part of a comprehensive development strategy for the countries, especially considering the important role they have played in the pandemic as catalysts for the recovery of the productive sector in the context of a dwindling private financial sector response, with a view to mitigating the economic and social impact of future crises.

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