Multilateral Development Banks in Latin America and the Caribbean

By Manuel Leon Hoyos

Original post here.

The Americas have become the new epicenter of the COVID-19 pandemic. The crisis has exacerbated the fall in exports from Latin America. South America is one of the regions with the largest losses in working hours.

Multilateral development banks in Latin America and the Caribbean led by the Inter-American Development Bank (IDB) have made over $40 billion available to address the crisis. This adds to funding facilities available through the International Monetary Fund (IMF) and the World Bank (see YPFS blog post on overall efforts by multinational organizations).

The IDB's 2020 Macroeconomic Report, published in April, projects that the region of Latin America and the Caribbean will experience a negative contraction of between 1.8% and 5.5% of GDP in 2020. The World Bank expects a deeper contraction of 7.2%, a far deeper recession than during the 2007-09 global financial crisis. A recent presentation from the IDB pointed out that the region is in a notably weaker position than it was in 2008.

To respond to the crisis, governments are expected to run large fiscal deficits. In regards to IDB's resources, its President Luis Alberto Moreno recently stated that "it is going to be a drop in the bucket compared to the immense needs the hemisphere has."

Multilateral development banks usually aim to promote long-term economic development, poverty reduction, and regional integration. In response to the COVID-19 crisis, the IDB focuses on four main areas: the immediate public health emergency, safety nets for vulnerable populations, economic productivity and employment, and fiscal policies.

Table 1 lists resources the multilateral development banks have made available in response to the COVID-19 crisis and their usage as of June 9, 2020.

Table 1: Available resources for the COVID-19 crisis

Multilateral Development Bank	Resources	Use as of June 9, 2020
Inter-American Development Bank (IDB)	Committed $21 billion for new lending: $12 billion for governments and $7 billion for the private sector through IDB Invest—the private arm of the IDB—focusing on MSMEs. Also, up to $1.35 billion from existing projects can be redirected by governments.	Over $14 billion in loans, of which over $2 billion has been allocated to six governments (Argentina, Colombia, Panama, Ecuador, El Salvador, and Belize) and over $12 billion for the private sector. Mexico announced $12 billion in loans a year to SMEs provided by IDB Invest in collaboration with the Mexican Business Council. Over $100 million from existing projects was redirected to health initiatives in five countries (Ecuador, Bolivia, Honduras, Panama and Belize).

	For COVID-19, countries can request up to $90 million or 0.6% of GDP (whichever is less) through the recently expanded Contingent Credit Facility for Natural Disaster Emergencies (CCF).	
Development Bank for Latin America (CAF)	Emergency regional credit line of $50 million per country for health emergency investments $2.5 billion Emergency Credit Line to support and complement government fiscal measures Non-reimbursable technical cooperation for up to $400,000 per country	Eight countries—Argentina, Bolivia, Colombia, Ecuador, Panama, Uruguay, Paraguay, and Trinidad and Tobago—have accessed the Emergency Credit Line
Central American Bank for Economic Integration (CABEI)	$1.96 billion Emergency Support and Preparedness Program for COVID-19: • $8 million provided in non-reimbursable funds • Up to $2.1 million purchase and supply of medicines and medical equipment • $600 million in emergency sovereign loans to member countries • $1 billion to support central banks' liquidity • $350 million Financial Sector	Over $835 million to three countries (Honduras, Guatemala, Costa Rica) Also, $8 million in non-reimbursable funds—$1 million for each country of the Central American Integration System: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Belize and the Dominican Republic.

	Support Facility for MSMEs	
FONPLATA Development Bank	In 2019, total lending capacity was over $3 billion, with $883 million available for lending.	Over $100 million disbursed (Argentina, Brazil and Uruguay). Provided $1.1 million in non-reimbursable funds to purchase medical equipment ($300,00 to Brazil and $200,000 each to Argentina, Bolivia, Paraguay, Uruguay).
Caribbean Development Bank (CDB)	Utilizing $347 million available for funding approved in 2019: $297 million in loans and $50 million in grants. $3 million for medical equipment in response to COVID-19.	Over $200 million disbursed ($140 million to borrowing member countries and $67 million to seven Caribbean countries).

These resources are generally made available through a combination of existing facilities. Table 2 below provides a summary of facilities that each institution has available to respond to the COVID-19 crisis.

Source of Funding

Multilateral development banks' loans and grants to member countries are funded from member countries' subscriptions and contributions, borrowings from capital markets, equity, and co-financing ventures.

Multilateral development banks also raise funding on international capital markets. On April 21, the IDB, which is rated AAA, launched a $4.25 billion sustainable development bond, its largest ever, with a 3-year term.

Other recent bond issues include:

- On April 13, the IDB launched the IDB Indonesian Rupiah Sustainable Development Bond at a 3-year fixed rate, valued at 55 billion Indonesian rupiah ($3.4 million).
- On May 27, the IDB launched an Australian Dollar Sustainable Development Bond with a 10-year fixed rate, valued at 350 million Australian dollars ($226 million).
- On April 24, IDB Invest launched its largest US dollar benchmark bond of $1 billion to strengthen support for the COVID-19 response.
- On May 7, CAF issued $800 million in 3-year bonds and on May 27, €700 billion in social bonds.

Table 2: Facilities and programs used for COVID-19 response	
Multilateral Development Bank	Facilities
Inter-American Development Bank (IDB)	Public sector support: Ordinary Capital (OC), the Fund for Special Operations (FSO), the Intermediary Financing Facility (IFF), trust funds, the IDB Grant Facility (GRF), and the recently expanded Contingent Credit Facility for Natural Disaster Emergencies (CCF). Private sector support: loans, guarantees or capital market products, or in conjunction with local institutional investors.
Development Bank for Latin America (CAF)	Loans: commercial loans (pre-shipment and post-shipment) and working capital loans and limited guarantee loans.
Central American Bank for Economic Integration (CABEI)	Loans: co-financed loans, structured loans, syndicated loans and A/B Loans, loans for investment projects, and refinancing. Credit lines: the Global Credit Line (GCL) to commercial banks and other financial institutions, the Line to Support the Liquidity Management of the Central Banks to central banks of CABEI's founding countries to support liquidity, and the Credit Line for Decentralized Public Entities and Central American Integration Institutions to meet working capital needs. CABEI also offers guarantees and letters of credit.
FONPLATA Development Bank	Loans and credit lines.
Caribbean Development Bank (CDB)	Loans and credit lines.

- On April 29, CABEI, with an "AA" rating, executed its largest issuance for a total of $750 million in 5-year bonds. On June 5, it issued $156 million in the Swiss market at a 5-year term, and $375 million at a 5-year term in the Formosa Asian market with dual listing in Taipei and Luxembourg exchanges.

In some instances, multilateral development banks are able to attract resources from non-regional members. For example, in 2019 CABEI welcomed Korea as its seventh non-regional member with an $450 million investment for a 7.2% stake. Since the COVID-19 crisis, some of CABEI's regional borrowing members have received financing from the Korea Development Co-Financing for Central America. On May 27, the IDB and Sweden established a risk transfer mechanism in which Sweden will provide a $100 million guarantee to enable the IDB to lend up to $300 million to Bolivia, Colombia, and Guatemala.

Conditionalities and Limitations

In addition to the IDB's COVID-19 goals, IDB Invest also prioritizes its lending based on sound credit fundamentals; environmental, social and financial sustainability; their contribution to the UN Sustainable Development Goals; and their ability to have a demonstration effect in local economies.

IDB President Moreno has said that private sector institutions that receive IDB Invest financing will not be able to distribute dividends.

Selected Country Highlights

Argentina, the third-largest Latin American economy, struggles with a debt crisis. This May, the country missed a $503 million payment in interest on $65 billion in sovereign debt. It remains in debt restructuring negotiations with its creditors, with technical support provided by the IMF. In response to COVID-19, the country has received around $6 billion in financing through multilateral development banks, including the World Bank, IDB, CAF and FONPLATA.

Ecuador has been hit hard with the fall of commodity prices—particularly crude oil. In April, the country was able to delay, until August, interest payments of $811 million on part of its sovereign debt. Carmen Reinhart, recently appointed World Bank chief economist, said the probability that Ecuador will default on its debt is very high. Ecuador has received financing for over $1 billion from the IMF, World Bank, IDB, and CAF. On June 4, Ecuador's Deputy Finance Minister Esteban Ferro said the country still faces a $3.5 billion financing gap.

Venezuela, similarly, has been hit hard by the fall in crude oil prices. On March 15, the country requested $5 billion from the IMF, but was rejected. In late May, the central bank of Venezuela sued the Bank of England to release $1 billion in gold reserves after the Bank of England refused to release its gold reserves.

The largest two Latin American economies, Brazil and Mexico, have seen their currency depreciate by over 20%. Both central banks have provided extensive measures to support liquidity (see YPFS blog post on the Bank of Mexico's actions).