Supporting Firm Resilience[1]

A firm support program for WBG COVID Phase 2 Response

To avoid persistent negative effects on economies and workers, it is critical that viable firms survive, and that financial institutions continue to provide access to credit and working capital for businesses in a sustainable way. It is equally essential that measures taken do not exacerbate financial risks, especially in vulnerable countries. Governments have a variety of tools to choose from to support firms, including tax relief and financial solutions, grants and fee reductions, and cash transfers notably through digital financial services. Support can also be provided to ensure essential services and value chains continue to function. The WBG can leverage its public and private sector knowledge and menu of delivery channels such as policy advice, WB-IFC-MIGA financing instruments through DPOs,P4Rs, IPFs, investments and de-risking tools, and coordinating with other donors and MDBs, taking advantage of existing partnerships, platforms, and other private sector investors.

COVID-19 is damaging otherwise healthy firms and they require support to remain viable. The economic shock is being transmitted through four channels: (i) falling demand, (ii) reduced and disrupted input supply, (iii) tightening of credit conditions and liquidity crunch and (iv) rising uncertainty. The objective over the short term must be to address immediate liquidity challenges to limit firm closures/bankruptcies and prevent widespread layoffs (see Annex 1). It is important that this type of support is rapid, transparent and time-bound. Strong support can also be given to firms of all sizes that retain workers.

Programs to support firms should be tailored to the type of firms and the administrative capacities of countries. Simple broad-based interventions with clear rules will allow countries to respond swiftly and control rent seeking, especially where administrative capacity is limited. Prioritization will depend on the landscape of firms and the country's administrative capabilities, as well as the financial sector soundness and fiscal capacity. A strong focus should be on middle segment, where there is the greatest potential loss of human and organizational capital. Specifically:

- **Informal firms are best targeted through social protection, microfinance and Fintech solutions.** The vast majority of informal businesses have few or no paid employees, low productivity, are not linked to the formal economy except through utility and rent payments, and are highly dependent on social networks and community-based financing. Support can be provided for the functioning and expansion of individual transaction accounts to facilitate relief payments and remittances. One-time grants can be used, but should not be contingent on formalization for tax purposes, in which case pickup would be limited. Leveraging fintech instruments or non-traditional marketplaces to provide liquidity to informal players and micro-small firms can also ease the financial burden.
- **Micro and Small formal firms that do not have access to the traditional financial sector could benefit from grants and cost reductions.** These could take the form of the suspension, reprofiling or even cancelation of their tax and social security obligations, as well as expedited VAT refunds. Clearing the stock of government arrears, avoiding the addition of new flows of government arrears, and accelerating payment to private enterprises is simple, non -distortionary, and effective way to support the private sector.

[1] This note has been prepared by Caroline Freund (Global Director, Trade, Investment and Competitiveness) and Alfonso Garcia Mora (Global Director, Finance). The note includes concrete proposals for WBG interventions developed jointly with Paulo de Bolle (Senior Director FIG) and Laila Nordine (Senior Advisor to IFC CEO). The authors would like to thank other colleagues from the WB, IFC and MIGA for inputs and comments.

- **There are additional options for SMEs that have access to the financial sector and are integrated into the economy through value chains.** Larger firms can be encouraged to support MSMEs along their supply chain, e.g. through supplier finance. It may be possible support to them in the form of credit guarantees, linked to corporate taxes paid in the previous year. Factoring and private equity fund investees are additional options. Import tariffs can be reduced or delayed.
- **Large firms also play an important role in generating high productivity employment, including in key sectors that typically are export oriented.** For those firms, a wider range of instruments are available, including: extraordinary policies to provide liquidity support, guarantees, trade finance, factoring, capital markets solutions, tax credits or concessional lending.
- **For countries with a large share of employment in state-owned enterprises, the government can serve as a guarantor of financial obligations of these enterprises**. Support can be made conditional on transparency and measures to strengthen SOE corporate governance.

Critical value chains will be needed throughout lockdowns, including transport and logistics, food markets, pharmacies and other health care services. Yet food value chains are being disrupted because workers cannot harvest crops, farmers cannot transport goods to market, or traditional markets are closed. To maintain these and other essential services, business models can be adapted to operate with social distancing and good health practices, and use technology (fintech, e-commerce) to limit face-to-face contact. Support to large private firms and SOEs may be necessary to maintain these value chains.

In designing and implementing programs, fiscal sustainability and financial sector stability will need to be considered, especially in countries with pre-existing vulnerabilities. With corporate and government debt at record levels, the tight interlinkages between sovereigns, banks, and the corporate sector in some countries may give rise to adverse feedback loops which could be exacerbated by the consequences of the pandemic. For many countries there are significant challenges, including: (a) very limited fiscal capacity to absorb losses and articulate active polices to provide financial support to the private sector; (b) historical high levels of non-financial corporate debt that in many cases will need to be restructured, requiring strong legal and institutional framework for insolvency and debtor/creditor rights; (c) mounting liquidity pressures (especially in those countries that do not have the fiscal, monetary and financial capacity to articulate liquidity facilities like Advanced Economies have done); and (d) asset quality deterioration that can adversely interact and lead to (individual and systemic) insolvency problems. Non-Bank Financial Institutions (NBFIs), and especially Microfinance Institutions, which play a relevant role to serve the most underserved segments of the population and private sector, are particularly vulnerable in many countries and require targeted public and private sector solutions.

Easing financial conditions and exercising some regulatory forbearance might be necessary as long as conditions remain difficult, though this is likely to have important negative implications on the stability of the financial sector in the medium term that needs to be assessed. Many financial sector regulators may decide to take unprecedented regulatory forbearance decisions to relief borrowers financial constraints. These will need to be designed carefully to avoid increasing financial risk, especially in those systems that are already vulnerable, with decisions that are extraordinary, time bound, transparent, based on rigorous risk assessments. Banks should be expected to produce and disclose reliable, frequent, up-to-date, and comparable information regarding loans that have benefitted from borrower relief measures, and take the necessary prudential regulatory measures in terms of classification and provisions.

As mobility restrictions are eased, policies should be refocused towards supporting growth-oriented enterprises, promoting reallocation of resources to more efficient companies, restructuring firms and

avoiding measures that risk propping up zombie firms (see Annex 2). In this period, many firms, including both larger corporates and SMEs, will not have escaped the previous phase unscathed and may be facing the risk of insolvency. Moreover, the negative effects on credit markets, supply chains, and worker productivity will dissipate only gradually. There may be a change in consumer behavior, and some firms, especially SMEs, will need support to adjust business models to a different economic environment. Firms in global and local value chains may need assistance in finding new suppliers. The deterioration of firm's balance sheets will affect financial sector decisions and will increase risk aversion parameters when extending new credit.

Data and analysis will be important to understand firm challenges and improve programs, both public and private. Tax data and enterprise surveys are being used to understand firm viability and which types of support are most appropriate in different industries. The corporate sector can be characterized in emerging markets using firm-level data from Orbis that record the share of domestic, foreign, and state-owned firms across sectors, as well as their financial positions. To capture the impact of the pandemic on firms, guide government response strategies, and track the recovery process, EFI and DEC are coordinating a series of data collection exercises documenting government support programs and rapid response firm surveys.

The WBG has a range of instruments to support firms that can be adjusted and expanded to address current challenges--mostly through DPOs and IPFs guarantees, lines of credit and equity instruments, --articulated around the following five pillars:

1) <u>Ensure liquidity and support adjustment for viable firms.</u> Emergency measures are needed to address liquidity challenges, reduce layoffs, and avoid firm closures and bankruptcies. These include grants, guarantees, concessional lending, trade finance, increased bank lending, factoring, and tax credits and deferrals. The Bank and IFC can help support the flow of credit to the real economy by providing liquidity support to ailing, but otherwise solvent firms through banks, and NBFIs. Some programs may be targeted toward hard-hit sectors or sub-regions. Programs focused on strategic or high-employment industries, such as transport or tourism, can be leveraged to help firms upgrade for the new economic environment, strengthen value chain linkages, and provide liquidity. It will be important to ensure that IFC and WB design joint interventions to facilitate risk sharing solutions, creates additionality and crowd-in private sector financing and capital. Particularly relevant will be to leverage the formal banking sector, NBFIs and microfinance institutions, with the latter two often not having access to traditional central bank liquidity facilities and needing additional support, including potentially through capital markets instruments ***This could be articulated through WB IPFs designed to provide lines of credit and strengthen partial credit guarantees programs, and through IFC credit lines to banks and NBFIs, local currency financing, guarantees and other financial solutions provided directly to the private sector in a manner that leverages public sector and eventually donors' resources.***

2) <u>Reduce operating costs and allow regulatory flexibility.</u> To complement financial and regulatory support, temporarily eliminating or reducing the administrative cost on businesses needs to be contemplated, with measures such as temporarily suspending or delaying tax and social security payments and filings, waiving fees for government transactions such as licenses; registrations or permits; helping firms cover wages, rent, and utility costs; reducing or suspending import tariffs; or

automatically extending licenses and permits for the period of the emergency; among others. Emergency periods also allow for greater flexibility concerning licensing and regulation of key professionals such as medical staff, as well as speedier approval for manufacturers of "essential" goods. ***This could be articulated through DPOs, P4Rs or IPFs with DLIs based on the achievement of specific objectives together with other financing and liquidity support through the private sector.***

3) Enhance the use of financial digital payments. FinTech solutions could be leveraged to improve MSMEs access to financing, offering an unprecedented opportunity to mitigate the impact of COVID-19, especially for those firms without prior access to the financial sector or to a large extent dependent on remittance flows. Simplified loan application processes, customer due diligence (CDD), and remote Know Your Customer (eKYC) rules to facilitate emergency cash transfers (G2P) through digital means, the acceptance of digital payments for essential entities such as hospitals and pharmacies and the use of alternative data (leveraging artificial intelligence for instance) for credit decisioning could be leveraged by "Bottom of the Pyramid" financing providers such as microfinance and fintech companies, as well as SOBs, to reduce turn-around times of MSME loans and facilitate crowd-in of the private sector along with risk sharing facilities. Additionally, financial institutions could leverage online platforms and capital market solutions for conducting reverse-factoring transactions that could facilitate supply-chain finance to MSMEs and shorten the maturity of the payments involved. ***This could be done with joint WB-IFC interventions using the range of instruments needed to accelerate the necessary reforms in DPOs that would facilitate digitalization of financial services and interoperability of payments systems, and supporting innovative Fintech solutions through IFC investments.***

4) Ensure the financial sector has the capacity to provide the needed liquidity and support without jeopardizing its resilience: Many financial sector regulators may decide to take unprecedented regulatory forbearance decisions. These will need to be designed carefully to avoid increasing financial risk, especially in those systems that are already vulnerable. This calls for adequate reporting and monitoring of forbearance measures to be able to assess asset quality, provisioning, and capital adequacy on a continuous basis, with decisions that are time bound, transparent and based on rigorous risk assessments. Monitoring of liquidity would be particularly relevant; often, other measures such as restricting the distribution of dividends and recapitalization of specific banks and NBFIs that are viable may be needed. Recovery and resolution planning for banks, and strengthening deposit insurance funds may need to be updated, and NPL management frameworks put in place together with comprehensive insolvency and out-of-court processes. ***This could be achieved by a combination of reforms included in WB DPOs, IPFs to recapitalize safety nets, and IFC co-investments to recapitalize institutions and help to resolve distressed assets.***

5) Create the enabling framework needed to restructure debt, providing financial support to firms during the recovery phase: The deterioration of the business cycle will have a large impact on the quality of assets and the capacity of firms to continue operating. Many firms will need to restructure their debt profiles and others will require to be promptly resolved to avoid an increasing number of zombie firms. The WBG needs to engage in the initial stages with authorities to strengthen the insolvency and resolution frameworks, including legal frameworks for corporate and consumer debt restructuring, and out-of-court conciliatory measures. The latter will be particularly important to prevent a surge in insolvency filings, value-destroying liquidations, and asset fire-sales, helping to preserve employment and also reduce pressures on bank balance sheets which impair their functioning and stability. In many countries the WBG could facilitate, promote and design "Asset Management

Companies” or “Recovery Funds”. ***This could be implemented by a combination of WB DPOs to create the enabling framework and the design of recovery interventions with different WB and IFC financial instruments. Such interventions should be designed with an exit strategy in mind to release public resources and let market forces function post recovery.***

The combination of technical capacity and financial firepower of the public and private sector arms places the World Bank Group in a very strong position to combine public policy advice and private sector knowledge with targeted financing instruments, technical assistance, as well as capacity to mobilize other investors.

Annex 1: Immediate Policy actions and considerations for Firms

Outbreak (first six months)	
Policy actions	**Considerations**
Maintain access to finance: • Expanded fintech solutions for MSME finance • With support from state-owned and/or central banks, financial institutions extend loan repayment schedules • Provide partial credit guarantees, export financing and credit insurance mechanisms to businesses facing liquidity shocks • Address the cash flow challenges of MSMEs • Stimulate bank lending for (otherwise) viable clients • allow for flexible accounting measures to prevent firms credit scores to be damaged long-term[2] • Authorities to closely monitor the impact of those regulatory measures. • Ensure ample liquidity is available for banks and NBFIs; monitor the flow of liquidity across financial institutions, particularly those in the same financial group *Ease and postpone tax obligations*: • Tax credits, waivers, and/or deferrals • Instant asset write-offs limited in time for SMEs • Reduce and/or defer payroll and social security taxes • Full deduction of crisis-related extraordinary outlays in VAT and income tax payments[3] • Defer local property tax payments, with support from national authorities[4] *"Keep lights on" for businesses:* • Accelerate payments for public procurement from SMEs and clearing any arrears from the public to SMEs • Expand public procurement initiatives (see, for example, a proposal for a temporary "government-as-buyer-of-last-resort" program[5], Saez & Zucman, 2020) • Amend insolvency & restructuring frameworks to urgently respond to the needs of MSMEs and prevent rapid increase of cases • One-time direct transfer for SMEs to keep them in business[6] (e.g. grant for rental payment, flat grant conditional on registering firm/workers, etc.)	• Explicit action to ensure that informal firms, mostly outside tax and financial system, are not excluded from responses to the crisis, and may include: - Provide, through their suppliers, informal firms access to direct transfer based on invoices from their suppliers (e.g. 50% of previous 3 months) - Extend factoring and credit guarantee programs to informal firms - Provide direct support for rental payment and deferrals of utility payments - Simplify access to transaction accounts (i.e., CDD), including for receipt of emergency support and transfers - Support community-based financing institutions - Mitigate damage to remittance flows - Restructure consumer loan payments - Provide a flat transfer (based on average profits/labor costs) for anybody who accepts to register the firm or workers. • Condition support to maintaining workers - Benefits may not reach workers and firms may still rely on layoffs. - Support to "keep lights on" should be conditional to maintain workers • If support is provided to large firms, it is important that this support is conditional on large businesses paying their vendors and avoiding massive layoffs. • More flexible or rapid procurement should still safeguard against possible bid-rigging • Country heterogeneity makes some responses unfeasible - Fiscal space may be limited - Access to finance might be limited to begin with, so that benefits only accrue to a few firms that have access to credit - Implementation capabilities may be much limited in LICs and FCVs

[2] During the 2009 GFC, Mexico adopted "special accounting criteria" to support SMEs and offset a long-lasting impact on their credit scores.
[3] Example: Chile
[4] Example: Chile
[5] For details see proposal from Saez & Zucman (2020). Keeping Business Alive: The Government as Buyer of Last Resort.
[6] Example from Australia: Subsidy for SMEs to boost Cash Flow for Employers by up to $25,000 with a minimum payment of $2,000 for eligible small and medium-sized businesses. The payment will provide cash flow support to businesses with a turnover

• Expedited payment to government suppliers as well as suppliers to SOEs (e.g. all pending payments to SMEs be completed in 2 weeks and payments to large companies within 1 month)[7] • Provide direct support to cover wage bill or have governments directly cover the wage bill[8] • One-time grant for informal businesses that decide to formalize • One-time income support transfer[9] for the self-employed to reduce the effect of closure for 1-2 months • Direct support to cover up to 80% of rental payments during the lockdown period • Temporary support to cover utility payments (e.g., electricity) • Relaxed regulatory compliance requirements, particularly in low to medium-risk sectors; shift towards deemed approval, self-certification, and risk-based inspections; fee waivers • Forward-looking advice/guidance to support businesses resilience[10] *Reduce cost of intermediate inputs and final goods* • Reduce import restrictions (NTBs, duties) on intermediate goods • Reduce import restrictions (NTBs, duties) on essential goods (e.g. agriculture, food, and health material) *Support systemically important firms* • Where firms are systemically important, particularly sectors with significant input-output linkages, the aggregate impact of their failure could be devastating. However, any support to these companies should be specifically conditioned on: (1) keeping existing workers and continue to pay them, (2) continuing to pay suppliers; (3) shareholders are not unduly enriched.	• Firm heterogeneity - Sector-specific needs: tax breaks and credit facilities for SMEs in travel/tourism, entertainment - Support program may emphasize women-owned firms • Regional heterogeneity - Industries that are most affected may be concentrated in certain regions of a country (e.g., travel destinations, manufacturing hubs) - Authorities may take advantage of that situation and enact focalized emergency plans (e.g., more generous VAT payments deferrals/breaks, credit assistance to all firms in beach resorts) • Time-bound interventions - Most interventions should be temporary, phased out as the pandemic subsides - Clear sunsets should be spelled out to avoid time-consistency problems • Targeting may not be feasible, opening room to cheating and mis-directing scarce resources • Avoid crowding out the private sector in commercial competitive sectors, with limited, if any, support to SOEs in these areas, and strengthened corporate governance requirements.

of less than $50 million that employ staff, between 1 January 2020 and 30 June 2020. The payment will be tax free. This measure will benefit around 690,000 businesses employing around 7.8 million people. Businesses will receive payments of 50 per cent of their Business Activity Statements or Instalment Activity Statement from 28 April with refunds to then be paid within 14 days.

[7] In Chile, starting April 2020, the central government will immediately pay all creditor suppliers.

[8] In Australia, eligible employers (small firms) can apply for a wage subsidy of 50 per cent of the apprentice's or trainee's wage for up to 9 months from 1 January 2020 to 30 September 2020. Where a small business is not able to retain an apprentice, the subsidy will be available to a new employer that employs that apprentice. Another example is kurtzarbeit in Germany, where the government temporarily takes over wage bill, or Denmark where the government is proposing to cover 70-90% of the wage bill for companies to keep workers on payroll while not working.

[9] Amount of subsidy should be commensurate to the foregone income estimated using informal surveys or household survey data as suggested in Section 2.

[10] An example of forward-looking support for companies to strengthen their business resilience has been launched in Queensland, Australia, where a mentoring program and financial workshops have been set up to assist small companies to address further impacts on their businesses. Similarly, Belgium has opened up existing instruments to support SME growth to help companies find new markets where demand from existing markets has slowed due to the outbreak. Korea is encouraging brick-and-mortar shops to open their business online.

• SOEs in essential sectors may need support. Support should be conditional on careful monitoring and strict requirements and measures to strengthen SOE corporate governance, including: publishing SOE annual audited financial statements; publishing (by the government) an annual aggregate SOE portfolio report including information on government support and SOE financial and service delivery performance; strengthening fiscal risk management (including of SOE debt); negotiating performance agreements with select SOEs; and other specific measures to strengthen SOE corporate governance (e.g., selection of CEOs and board members, including requirements for independent board members).	

Annex 2 – Policy actions and considerations during recovery

<table>
<tr><th colspan="2">Recovery (next 18 months)</th></tr>
<tr><th>Actions</th><th>Considerations</th></tr>
<tr><td>*Restore credit flows to boost investment*:
• SME credit guarantees schemes
• Expanded credit factoring programs
• Explore capital markets pooled financing options for SMEs, such as debt (recovery) funds
• Provide expanded out of court debt resolution to address struggling firms and expedited liquidation to avoid the proliferation of ‘zombie’ firms and return assets to productive use
• Facilitate access to payment systems and support remittances through DFS

Reactivate trade flows and value chain participation:
• Expanded import- and export-credit arrangements
• Keep import duties low to facilitate access to imported inputs

Recalibrate tax incentives toward promoting investment:
• Scale-back payroll tax breaks adopted during Phase I
• Accelerated depreciation for capital investments
• Incentives for investments in innovation
• Introduce full tax deduction for expenses in workers training

Redirect fiscal support from emergency measures to temporary job creation programs:
• Ease SME participation in public procurement
• Public works with an emphasis on SMEs

Revamp/create SME support programs focused on promoting firm and productivity growth:
• Promote investments for worker training, management training, BDS, technology adoption
- Introduce tax deductions for up to 80% of expenses in these areas up to a maximum limit (limit could be per firm based on turnover/employees.
• Forward-looking advice/guidance to support businesses resilience[11]</td><td>(Additional qualifications to those stated regarding Phase I)

• Efforts to restore growth may offer an opportunity to address barriers affecting firms’ growth:

- Access to SME support programs (e.g., credit support, procurement) may serve as an incentive for informal firms to become formal
- Improving the business environment
- Strengthened/revamped firm-support programs</td></tr>
</table>

[11] An example of forward-looking support for companies to strengthen their business resilience has been launched in Queensland, Australia, where a mentoring program and financial workshops have been set up to assist small companies to address further

Annex 3: Dos and Don'ts of Supporting Firm Resilience

General principles	
DOs: ✓ Focus on supporting businesses and jobs: Protect firms in order to preserve the relationships they have established with other stakeholder – workers, suppliers, and financial institutions ✓ Design and implementation of policies should be proportionate and context-specific, taking into consideration a country's fiscal capacity constraints and financial sector vulnerabilities ✓ Ensure that emergency measures are transparent, timely and time-bound ✓ Communicate in a cogent and transparent manner the rationale for supporting firms and the duration of policy interventions, with clear and credible sunsets ✓ Support firms in adapting to new business models by providing information, advisory services, and expanding public procurement initiatives where appropriate ✓ Support informal firms through social protection in the short run and microfinance in the recovery phase. ✓ Follow a phased approach. Adopt simple rules that are phased out as the pandemic subsides, increasing targeting of the support in the recovery phase to reignite growth, firm productivity, and increased support to entrepreneurship. ✓ Engage in stakeholder dialogue with industries on how each sector may operate most effectively under social distancing and a phased resumption in activity ✓ Collect high frequency data to track the propagation of the shock and guide policy responses	***DON'Ts:*** ✗ Do not use one-size-fits-all policy responses ✗ Do not adopt open-ended support measure and avoid time-consistency problems and capture by specific interests ✗ Do not assume all firms will benefit from financial and tax support measures. Banks may channel funding to existing and less risky clients vs businesses that most affected. Informal firms may be best targeted through social protection and micro-finance. ✗ Do not expend all resources during the crisis - fiscal space will be needed in the recovery phase ✗ Avoid creating opportunities for cheating and mis-directing scarce resources away from firms that need support the most ✗ Avoid measures that benefit zombie firms or firms that had viability problems before the crisis started to save scarce resources and minimize moral hazard.
Ensure liquidity for viable firms	
DOs: ✓ Address immediate liquidity challenges to limit firm closures/bankruptcies and prevent widespread layoffs ✓ Design liquidity solutions, when possible, that create additionality from different public and private funds ✓ Design solutions that can mitigate credit risk through risk sharing solutions, specially or recovery phase ✓ Clear government arrears and ensure prompt payment to public procurement vendors ✓ Encourage the private sector to extend loan repayment periods and/or introduce temporary moratoria on enforcement of certain debts	***DON'Ts:*** ✗ Do not exacerbate financial risks through unsustainable support measures ✗ Don't extend liquidity to firms that were not viable before the crisis ✗ Do not cancel or announce non-paying back loans ✗ Do not allow high corporate and government debt levels to escalate and give rise to adverse feedback loops

impacts on their businesses. Similarly, Belgium has opened up existing instruments to support SME growth to help companies find new markets where demand from existing markets has slowed due to the outbreak. Korea is encouraging brick-and-mortar shops to open their business online

✓ Ensure that access to credit and working capital for businesses is provided in a sustainable way ✓ Use existing data from taxes, firm surveys, financial sector supervisors, and business associations to inform programs	
Reduce operating costs and allow regulatory flexibility	
DOs: ✓ Leverage tax relief support through credits, waivers, and deferrals ✓ Relax regulatory compliance requirements and administrative procedure burden, particularly in low to medium-risk sectors and ensure that businesses can comply using remote/online channels ✓ Shift towards deemed approval, self-certification, and risk-based inspections; fee waivers ✓ Consider (partial) wage subsidies to reduce the likelihood of layoffs	***DON'Ts:*** × Avoid permanent tax rebates, especially in countries with weak fiscal positions × Do not reduce or suspend utility bills, as that may affect upstream utilities' financial sustainability. Instead, consider supporting firms directly through vouchers × Do not relax transparency and competition in procurement. More flexible or rapid procurement should still safeguard against possible bid-rigging
Enhance the use of digital payments	
DOs: ✓ Simplify customer onboarding for basic account opening and limited transactions for small businesses, including customer due diligence (AML/CFT) measures ✓ Establish business continuity plans for payment systems operation ✓ Ensure that agents and cash in/out networks remain open and accessible during 'social distancing' lockdowns ✓ Where possible, reduce fees associated with digital payments so merchants can receive contactless payments ✓ Where possible, digitize government to person crisis response payments to support micro and small businesses	***DON'Ts:*** × Do not restrict access to cash except where restrictions are deemed absolutely critical
Ensure the financial sector has the capacity to provide the needed liquidity and support without jeopardizing its resilience	
DOs: ✓ Provide systemic liquidity to the financial sector to enable its role in supporting firms ✓ Use the existent prudential buffers to provide regulatory relief to the the financial sector ✓ Regulatory forbearance decisions will need to be minimized and if done, must be designed carefully, being extraordinary, time bound, and based on rigorous risk assessment. If moratoria of payments is applied, it should be implemented keeping the Net Present Value of loans ✓ Banks are expected to produce and disclose reliable, up-to-date, frequent and comparable information on loans that	***DON'Ts:*** × Avoid increasing the financial risk, especially in those systems that are already vulnerable. × Don't adopt regulatory forbearance measures that do not comply with the minimum conditions mentioned in Dos. × Don't relax classification and provisioning rules for restructured loans × Do not impose interest rate ceilings since they could lead to reduced access to credit and bank profitability

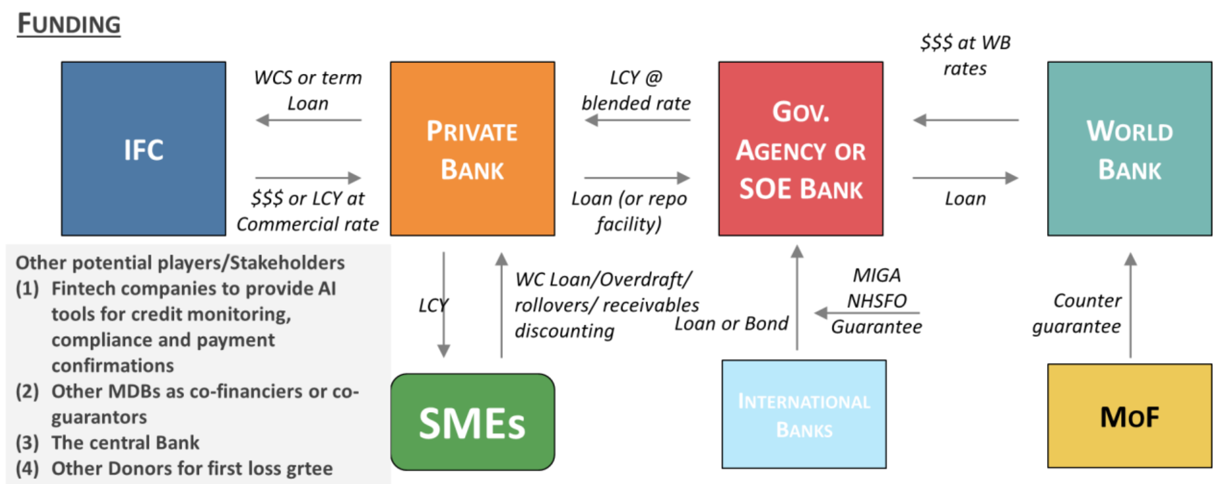
have benefited from borrower relief measures, and take the necessary prudential regulatory measures in terms of classification of loans and provisions ✓ Take supervisory remedial actions promptly, while avoiding systemic risk ✓ Consider constraints to the distribution of dividends and share buybacks when providing liquidity and regulatory support to banks	
Create the enabling framework needed to restructure debt and firms and prepare them for the recovery phase	
DOs: ✓ Introduce temporary and time-bound measures to prevent premature insolvency ✓ Establish robust out of court workout frameworks and supporting incentives ✓ Introduce legal tools for operational and financial business restructurings ✓ Introduce consumer/household bankruptcy and fresh start provisions for micro and small enterprises	***DON'Ts:*** ✗ Do not allow blanket regulatory forbearance ✗ Do not eliminate or unduly hinder processes to liquidate failed firms ✗ Do not allow for the proliferation of 'zombie' firms
Support the resilience of value chains	
DOs: ✓ Leverage technical assistance to ensure that critical value chains continue to function ✓ Support to large private firms and SOEs may be necessary to maintain these value chains, and should be conditional on paying their vendors and avoiding layoffs ✓ Reduce import restrictions (NTBs, duties) on intermediate goods ✓ Consider expanded import- and export-credit arrangements in a recovery phase ✓ Provide enhanced investment aftercare to foreign companies that have local investments	***DON'Ts:*** ✗ Avoid imposing trade restrictions (export restrictions, NTBs, duties) on essential goods (e.g. agriculture, food, and health material)

Annex 4 - Potential integrated WBG financial structures to support SMEs access to finance

Given the global nature of the current crisis, funding needs are extraordinary large and credit risks are increasing due to the present halt in economic activity in both advanced economies and EMDEs. Given the severity of the situation and the present constraints in the response of developing countries, a public private partnership scheme to pool and leverage resources, share and mutualize risks can play a key role in addressing the challenges ahead. A joint IFC/WB/MIGA framework to support access to finance to SMEs in IBRD and IDA countries through public and private sector entities could be presented along the three following structures that aims to leverage World Bank, IFC and MIGA.

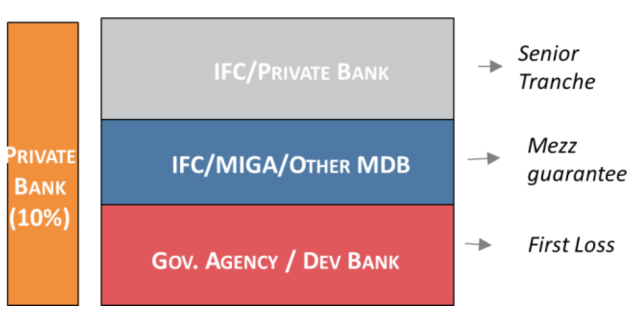
Example 1: Funding structure through lines of credit

(IFC Lending to Bank / WB lending to government agency that provides SME guarantee to private Bank)



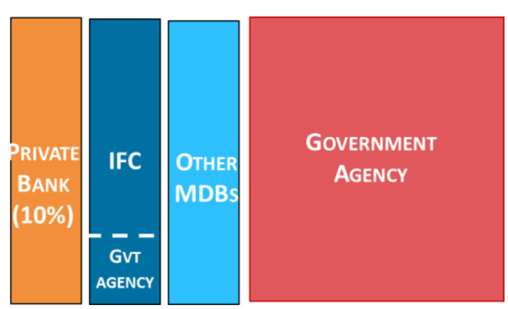
Example 2: Guarantee Facility- Scheme I

(IFC and other financiers to leverage Government resources)



Example 3: Guarantee Facility – Scheme II

(Without leverage for Government resources)



Under this framework, private and public sector banks could obtain access to both liquidity to on lend to eligible SMEs and risk sharing arrangements on their SME portfolios. Eligibility criteria for implementing financial institutions, beneficiaries, conditionality of the use of funding, and characteristics of the loan (maturity, amount per borrower, etc.) would have to be defined based on country conditions and needs.

As indicated in the design of the structures:

- **WB role:** could provide policy advice and financing to a Government agency that can in turn on-lend in local currency to private and public sector banks (straight loans or purchase of SME pools) to lend to MSMEs, or provide financing to Government agencies to support Partial Credit Guarantees;

- **IFC role:** would lend to local eligible private sector banks in USD or LCY if available; and enter into Risk sharing into a set of Loans to SMEs as government program is phased out; and

- **MIGA role:** could provide a guarantee to International banks who on-lend to public sector banks (non-honoring sovereign financial obligations guarantee (for countries rater BB- and better))

Annex 5: WBG Support to the Microfinance sector

The formal global microfinance sector serves over 140 million low income clients with credit and savings services and as of 2018 had a combined portfolio of $124 billion in outstanding loans and $80 billion in savings. Microfinance has become a specialized impact investing category, with $17 billion in investments in microfinance institutions (MFIs) around the world. The informal microfinance sector is likely many times larger, and includes NGOs, cooperatives and informal savings and loan groups. In addition, digital payments have enabled a whole new breed of technology-enabled credit providers, also funded largely by donors and impact investors, including solar PayGo energy suppliers, digital credit providers and other fintechs. In the near term, attention on mitigating the effects of the crisis is likely to be focused on support to the banking sector. While the largest MFIs have transformed into banks, many microcredit providers operate as non-bank financial institutions (NBFIs) and in other more lightly regulated formats. All are potentially at risk as the COVID-19 crisis exposes them to sudden changes in credit quality, borrowing costs and operating procedures, none of which are of their own making.

Evidence gathered so far in this crisis suggests that MFIs are providing flexibility to their clients, either because they know this is the best way to sustain client relationships, which will be important in the recovery phase, or because governments have officially mandated that financial institutions offer relief to their clients. Understandably this has put pressure on the MFIs, particularly liquidity pressures in the short term, and it also threatens to undermine the strong repayment-based credit culture on which MFIs depend for their longer-term survival. The immediate liquidity risk for MFIs is compounded by rapidly increasing pressure on cost-income ratios. As operations begin to shrink due to country-wide lockdowns, MFIs without support will begin to face serious solvency issues as well. This will be particularly important in a context where cash transfers and Government to Person (G2P) payments will need viable MFIs to distribute these funds, especially for those segments and sectors that do not use commercial banks.

The WBG is the largest multilateral funder in this space, and IFC the largest investor in private sector, commercially sustainable, MFIs. The WB-IFC-CGAP can play an important role at the global and country-specific level. IFC estimates that up to $30-50 billion funding for stabilization and liquidity support will need to be backstopped, and in the longer term as much as $15-20 billion may be needed to restructure and recapitalize the sector.

The WB-IFC-CGAP are in an excellent position to convene other funders, including bilateral donors, multilaterals and private sector institutions, to encourage their participation in finding solutions feasible and adapted to this sector. This might be more effectively done on a regional basis, given the diverse levels of maturity and depth of microfinance sectors in different parts of the world. It is worth underlining here that the IFC is working on a global liquidity facility for MFIs. More concretely, the support to country programs could be articulated along the following lines:

The WB role:

(i) Provide policy guidance on systemic supports to the sector including use of MFIs and fintechs as channels for cash transfers/social safety nets / G2P programs.

(ii) Help governments to design and promote public liquidity facilities and second tier solutions for NBFIs/MFIs

(iii) Help governments implement distribution of real sector support programs that leverage MFI connectivity to base of the pyramid

(iv) Advise governments to restructure the sector, strengthening its resilience and capacity to continue operating for the basis of the pyramid leveraging on Fintech solutions

(v) Advise regulators on specific regulatory forbearance along the criteria and principles mentioned in this note.

IFC role:

(vi) Structure organized rescheduling and/or repayment deferrals, where appropriate, under a coordinated industry response with other investors. Form investor steering committee.

(vii) Create emergency facilities with strong public sector/MDBs/Donors participation to achieve risk sharing solutions to provide working capital and liquidity lines to MFIs, NBFCs, MIVs and fintech companies with sound fundamentals at the institution and client level. Mobilization of private capital in this period of uncertainty will require government guarantees, and local currency facilities.

(viii) Once recovery is underway, IFC and private sector investors can selectively invest longer-term debt (including bond issues), equity and/or sub-debt to restore sustainability of intermediaries and support distressed asset or workout facilities and consolidation at sector level.

(ix) Develop credit enhancement structures for NBFCs bond issues to foster investor demand in close cooperation with WB

CGAP Role:

(x) CGAP specific microfinance expertise will be critical in supporting and designing WBG interventions.

(xi) CGAP convening power can be catalytic to find public/private sector solutions to bring together stakeholders around comprehensive solutions.

MIGA Role:

(xii) MIGA can support private investors by providing synthetic capital / guarantees to reduce need for regulatory capital in certain jurisdictions

Annex 6: Summary of Existing Country Support Programs

Since the onset of the outbreak, the World Bank has been cataloguing policy actions that have been announced in support of SMEs. The list of actions is not exhaustive and continues to be updated as further responses are announced. It also does not contain systematic information on their monetary value or other metrics that would allow an assessment of their magnitude. Still, with some 895 actions taken in 120 countries around the world (Figure A3.1), we can already identify important differences in how countries are reacting to the crisis—and make some suggestions for countries that are still crafting their policy response package.

Figure A3.1: Firm-support measures adopted in recent weeks in response to COVID-19

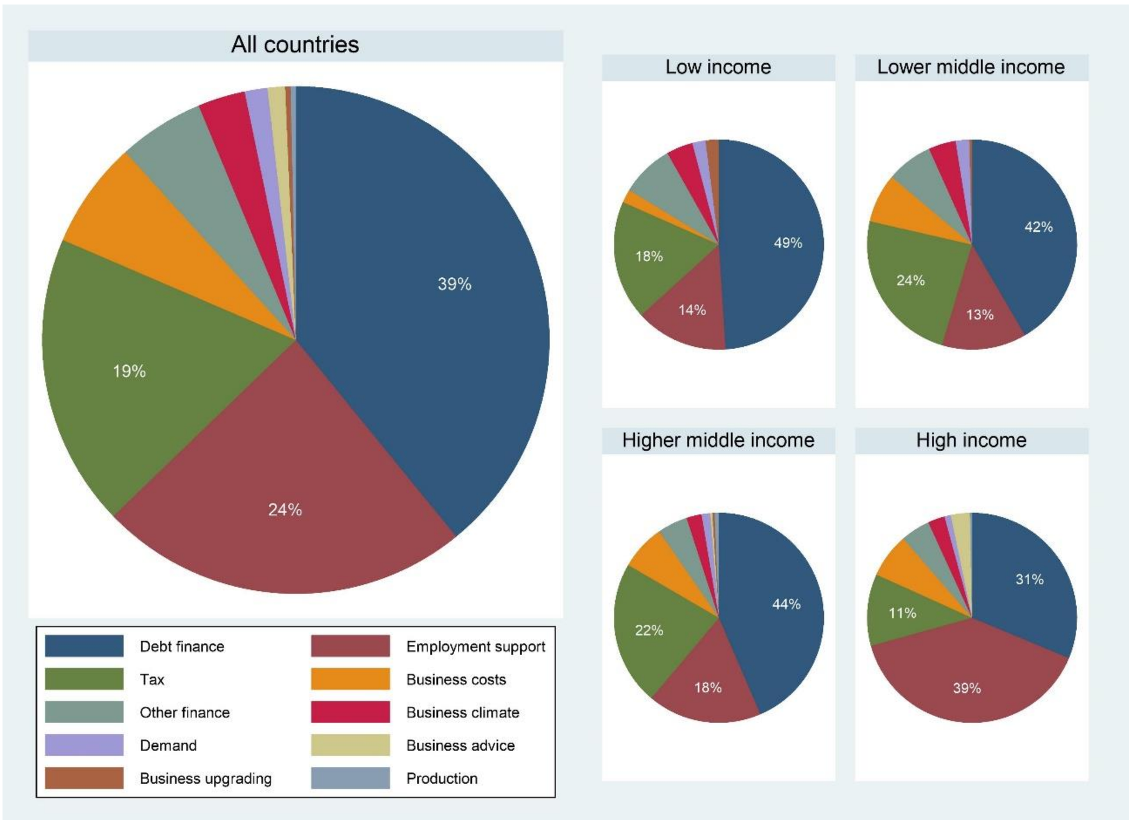
Source: World Bank Group, Map of SME-Support Measures in Response to COVID-19

Notes: A total of 895 measures in 120 countries have been catalogued as of 23 April 2020. Employment support measures do not include those, such as unemployment insurance, that are directly targeted to workers.

- **High-income countries have been quicker to announce actions.** About 80% of high-income countries have announced responses to the crisis, whereas only 32% among the lowest-income countries have taken actions.
- **Debt finance has been the most common instrument of choice.** Across all countries (Figure A3.2), debt finance support—new lending at concessional terms, payment deferrals, credit guarantees provided by governments, and central banks' actions to induce commercial banks to increase lending to SMEs, such as lowering capital requirements—is the most common (39% of all support actions). Employment support (24%) is also prevalent—through wage subsidies and transfers to the self-employed—and tax support (19%).
- **High-income countries have relied mostly on employment support measures, while lower-income economies have primarily utilized debt finance and tax support** (figure 2b). The importance of employment support declines in line with a country's per capita income: while these measures account for nearly 40% of the overall support in high-income economies, their importance declines to less than 15% in low and lower middle-income countries. Conversely,

poorer economies rely much more on debt and tax instruments—as much as 49% and 18%, respectively—among low-income countries.

Figure A3.: Type of SME Support
(All countries and by country income level)



Source: World Bank Group, Map of SME-Support Measures in Response to COVID-19

Notes: A total of 895 measures in 120 countries have been catalogued as of 23 April 2020. Employment support measures do not include those, such as unemployment insurance, that are directly targeted to workers. Country income levels are defined by quartiles of the distribution of 2018 gross national income per capita. Data come from the World Bank's World Development Indicators.

Annex 7: Active and Pipeline SME-tagged Lending Projects (excluding IFC)

(FY15-FY22)

ACTIVE PROJECTS

Lending type	# projects	Commitments (USD mn)
BLEND	24	2,149.6
IBRD	64	9,270.0
IDA	61	4,302.0
OTHER	18	1,013.3
Grand Total	**167**	**16,734.9**

Instrument type	# projects	Commitments (USD mn)
DPF	7	3,118.5
IPF	154	12,453.4
PforR	6	1,162.9
Grand Total	**167**	**16,734.9**

Region	# projects	Commitments (USD mn)
AFR	60	4,793.3
EAP	13	883.2
ECA	25	1,935.2
LCR	18	2,434.8
MNA	27	3,817.6
SAR	24	2,870.9
Grand Total	**167**	**16,734.9**

PIPELINE

Lending type	# projects	Commitments (USD mn)
BLEND	4	395.0
IBRD	14	2,139.0
IDA	21	2,533.0
OTHER	7	397.5
Grand Total	**46**	**5,464.4**

Instrument type	# projects	Commitments (USD mn)
DPF	3	670.0
IPF	39	3,919.4
PforR	4	875.0
Grand Total	46	5,464.4

Region	# projects	Commitments (USD mn)
AFR	13	1,499.0
EAP	5	398.0
ECA	10	503.5
LCR	5	531.0
MNA	5	920.0
SAR	7	1,611.3
OTH	1	1.7
Grand Total	**46**	**5,464.4**

Annex 8: Lessons from Previous Crises

Evidence from previous crises shows that effects are heterogeneous across sectors; Facilitating access to capital is important, particularly for the retail sector, which employs a large share of the population through SMEs in developing countries; Technological diversification may facilitate the capacity of firms to deal with these crises; The duration of the effects goes well beyond the end of the crises, particularly effects on employment and productivity that persist even after revenues and unemployment have recovered.

Table A1. Summary of key findings related to epidemiological crisis, natural disasters, or financial crisis

Country: Crisis	Paper/ Findings
China: Impact COVID-19 on SMEs	Bouey (2020) • Businesses relying on physical space and shops, such as supermarkets, traditional food markets, restaurants, car dealers, movie theaters, gyms, and bars, suffered significant losses • Local neighborhood markets (convenience stores), Online retail shops with apps built into social media were popular, as were such recent innovations as human-free markets and vending machines. • As (some) regions go to complete shutdown a mechanism needs to be designed to define what are the activities that will get priority to be reopened. Dai, R., Hu, J., and Zhang X. (2020); Zhang, X. and Wang, R. (2020) • The Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) launched a survey on the "condition of micro, small and medium-sized enterprises (SMEs) amidst the coronavirus outbreak." • 80 percent of surveyed firms had not resumed operations at the time of the survey, February 10, 2020, and 40 percent could not determine a timeframe for resumption; • 50 percent and 61 percent, respectively, of the entrepreneurs interviewed consider that wages and rents represent the main costs of doing business. • 20 percent of surveyed firms will be unable to last beyond a month on a cash flow basis, and 64 percent beyond three months, presenting a dire picture for SME bankruptcies under an extended epidemic scenario; • Barriers to business operations vary along the supply chain, with upstream firms mainly affected by labor shortages, while downstream firms face more serious challenges related to supply chains and consumer demand.
Sri Lanka: Impact of 2004 Tsunami on microenterprises	Mel, McKenzie, Woodruff (2014) • Lack of access to capital inhibits the recovery process; • Firms receiving randomly allocated grants recover profit levels almost 2 years before other damaged firms. • Access to capital is particularly important for the retail sector; the role of capital in recovery for manufacturing and services sectors may be limited by disruptions in supply chains. • Business recovery is much slower than commonly assumed, underscoring the role targeted aid may play in hastening microenterprise recovery following such disasters.
Japan: Impact of 2011 Great East Japan Earthquake on SMEs	Kashiwagi (2019) • Capital subsidies were effective for the recovery of the performance of SMEs in the retail sector.

	• However, in manufacturing and other service sectors, it finds no significant difference between the recovery of SMEs with and without the subsidy.
US: Effects of 28 natural disasters reported in the United States in 2013 on firm performance	Hsu, Lee, Peng and Yi (2018) • Firms with factories located in states affected by natural disasters are much less profitable. • Firms with diversified technologies are significantly less subject to the impact of natural disasters, suggesting that technology diversity enhances firms' sustainability
US: economic downturns during 1976-2013	Moreira (2016): • Businesses born in downturns start on a smaller scale and remain smaller over their entire lifecycle
Mexico: 2008 global financial crisis	Bruhn (2016): • Government program to provide wage subsidies to firms who keep their workers • Employment recovered faster in eligible industries than in ineligible industries
Brazil, Chile, Ecuador and Mexico: effects of the 2008 global financial crisis 2008 on workers and firms	Fernandes and Silva (2020/Manuscript) • The duration of the effects goes well beyond the end of the crises. It includes effects on revenues that eventually disappear. But it also includes effects on employment and productivity that persist even after revenues and unemployment have recovered. • Firms have different shocks. The loss depends on the shock (whose magnitude can be estimated), but also on the characteristics of firms. • Despite being a macro-shock, a big part of the responses should be at the micro-level (supporting directly firms and workers, compensating their losses. This goes beyond providing access to credit). • Effects of firm dead of a crisis—even one that lasted much more than 3 months such as the Global Financial Crisis—are relatively small. But effects on productivity appear to be significant and with persistent effects. • Labor market flexibility appear to matter a lot for the nature of workers' and firms' adjustment.

Annex 9: Summary of WB Financial Sector potential interventions

As the COVID-19 crisis continues to develop, the initial need for liquidity support will be followed by an overall need to restructure assets that are deteriorated, and intermediate efficiently to provide credit and capital to the real sector during the recovery phase. This will require strong financial institutions, insolvency regimes, crisis management frameworks, market liquidity and capital markets solutions, which would be articulated with a combination of instruments, including DPOs, IPFs with DLIs, P4Rs and TA in the following areas:

- **Strengthening the resilience of the financial sector and its capacity to support the economy**

  (i) Regulatory reforms to support emergency measures and strengthen regulatory frameworks: Some of the measures supported include institutional strengthening of insolvency regimes, both for corporates and households; enhancement of out of court debt restructuring mechanisms; strengthening of bank resolution and crisis management frameworks and safety nets (being currently considered for Brazil, Mozambique, South Africa, Tajikistan, Nigeria); selected prudential and liquidity measures (e.g. Mexico, Ethiopia); integrity measures particularly related to the expedient opening of bank accounts and delivery of social safety nets programs (e.g. CDD/KYC related; DRC, Egypt, Morocco, Djibouti); Supporting financial institutions restructuring and resolution; strengthening of financial safety nets.

  (ii) NPLs assessment and management. With the effects of Covid-19, NPLs are expected to rise in many countries, especially in those that were badly hit by the GFC (while other countries already have large NPL levels prior to the crisis). Policy and regulatory advise by WB will be complemented by IFC DARP program, encompassing a wide array of activities:

  - Asset Quality Reviews (AQRs). Getting accurate information about banks' exposure to problem assets will be paramount in the next several months. Experience shows that officially reported asset quality indicators (including the NPL ratio) do not always fully reflect economic reality; this problem is expected to more prevalent since authorities will be forced to grant forbearance.
  - Assessing the prudential regulatory framework to focus on identifying gaps in: (a) non-performing asset (NPA) and forbearance definitions (BCBS or EBA), (b) prudential provisioning requirements, (c) write-off framework, (iv) granularity of regulatory reporting, and (d) NPL disclosure requirements in financial statements.
  - Implementing effective workout of problem loans. Resolving NPLs is going to be more challenging going forward. It will require banks to be operationally ready to reclaim potentially large volumes of NPLs. This has important repercussions for banks' organizational set-up, staffing and information.

  (iii) Crisis Management, Bank resolution and Deposit insurance schemes strengthening. Improving bank resolution and safety nets including capitalization of Deposit Insurance Schemes will be needed in many countries, and especially in those with more vulnerable financial sectors. IFC could complement providing solutions for distressed but potentially viable financial institutions including different types of instruments equity and subordinated debts, first tranche losses to facilitate new private capital injections etc.

(iv) Develop E-KYCs, suptech, particularly for the medium term. The WB can support legal and regulatory reforms to ensure effective implementation of the eKYC registry in compliance with AML/CFT and personal data protection requirements. In addition, the WB could help identify the deficiencies and shortcomings of the existing prudential and financial reporting system to enhance Data Governance in supervisory authorities; identify the need for implementation of SupTech solutions for data collection, data analytics and data dissemination; assess the need and opportunity to implement advanced SupTech solutions.

- **Liquidity Support and SME Access to Finance**

(i) Liquidity support through lines of credit. The WB supports government mobilization of funding, including through SOBs and SOFIs to support SME finance. This funding should be based on clear eligibility criteria through second-tier lending to crowd in private lenders. Targeting specific segments and sectors that are not served by the private sector will be particularly important, as it will be to ensure full coordination and additionality with IFC lines of Credit.

(ii) Partial Credit Guarantee Schemes – Support is also provided to firms via enhanced terms and conditions for guarantees to incentivize financial intermediaries to provide credit to SMEs, especially in those countries where credit risk is (perceived) high. Some measures which can be swiftly adopted include increasing the total guarantee volume capacity of the guarantee fund as well as increasing the maximum guarantee volumes per beneficiary. Countries may also increase the proportion of a loan that can be covered by a guarantee, reduce or waive the processing fees associated with these guarantees, expand the scope of guarantee programs to previously uncovered sectors and extend the repayment period of guaranteed loans.

(iii) Early Stage Innovation Finance. In exceptional circumstances, governments could inject equity into firms directly though publicly funded venture capital companies and funds, or indirectly through loss sharing mechanisms and other forms of leveraged funding. This may be particularly relevant in the 'recovery' phase of the crisis.

(iv) Using Fintech Solutions to Provider Greater Liquidity to SME. Supporting the public sector in the creation of digital platforms that allow invoices and accounts receivable to be used and traded as the basis for factoring and reverse factoring. Crowdfunding is also being used to rapidly coordinate community responses to Covid-19 in a number of countries including Indonesia, South Africa and Kenya. Making full use of the fintech solutions available to enhance access to finance will also require 3 critical reforms to the payments framework in many countries: (i) simplification of customer due diligence (CDD) procedures for account opening**;** (ii) allowing NBFIs to provide payment services to individuals and MSMEs; and (iii) allowing banks to engage third party service providers to service their individual and MSME clients**.**

(iv) Leveraging Data to Support Firms during the recovery phase. To ensure that access to finance is not inhibited during the recovery phase of the crisis, the WB may need to support regulators to implement and enforce policies to report full file credit information to credit reporting service providers (CRSPs) during COVID-19, with the necessary safeguards (including flags or codes for loans under forbearance) to ensure minimal impact on SME credit histories and scores. In addition, promoting the adoption and usage of alternative data will increase the possibilities of SMEs (mainly informal) to access credit and recover from the crisis.

a. **<u>Capital markets functioning and solutions for financing by firms, Banks and NBFIs:</u>** Capital markets can play a critical role in mobilizing financing for firms and supporting debt reprofiling. The World Bank Group can provide support in two main fronts:

(i) Instruments to facilitate access to capital markets.

a. *Credit enhancements to Firms, Banks and/or NBFIs*: WBG can support firms on debt financing or refinancing via capital markets by providing partial credit guarantees through governments. Capital markets solutions can provide de-risking schemes enabling to tap institutional investors via bond issuances by firms, banks and/or NBFIs or via debt funds;

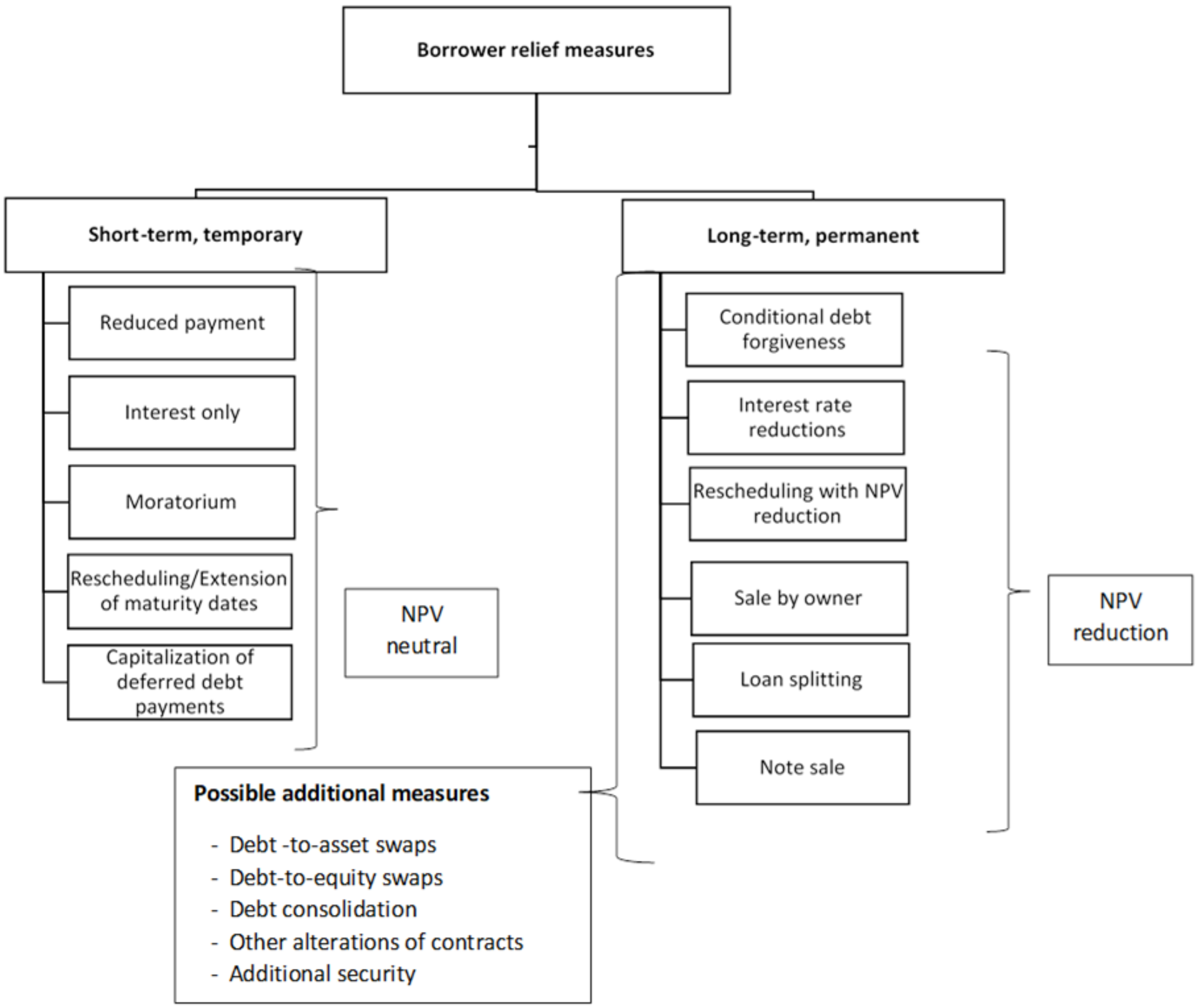
b. *Lines of credit for short-term debt servicing or collateral financing*: WB lines of credit can support liquidity needs for interest payments of capital market instruments such as Bonds during initial years. Lines of credit can also support financing of collateral for new collateralized Bond issuances.

(ii) Strengthen the functioning of debt markets: the WBG can support countries (Central Banks, Debt Management Offices and Securities Regulators) regain and strengthen operations of domestic capital markets, especially local currency debt markets. Concretely:

a. *Money Markets*: a proper functioning money markets provides the foundations for well-functioning capital markets. The WB can support authorities on their effort to address pre-existent bottlenecks such as lack of solid repo market frameworks as well as issues around liquidity management.

b. *Public Debt Market*: the government debt market lies at the heart of domestic capital markets and policy makers need to ensure this market is back to "normal" (pre-CODIV) to provide the necessary enabling environment for issuance and trading of a wider range of asset classes including corporate debt, and asset backed securities. Debt managers are likely to have to implement necessary emergency measures in the short term to ensure adequate funding and a minimal level of functioning in the primary and secondary markets. Once this episode has passed, debt managers will need to intensify efforts to normalize the government debt market.

Annex 10: Borrower's regulatory relief measures



Annex 11: Support to resolution of Systemically Important Financial Institutions (SIFIs)

While the ultimate impact on Financial institutions may not be permeating immediately as losses will manifest themselves only in next months depending on pre-existing vulnerabilities, extent of the impact, and the effectiveness of government interventions for COVID-19, a pro-active engagement of the WBG with the Governments who request it would be warranted especially in countries with pre-existing vulnerabilities. Such engagement would need to be considered very carefully, given the potential conflict of interest (CoI), and it will need to be done sequentially, starting with a WB engagement based on the content detailed in annexes 8 and 9.

After that, the WBG could leverage financing, advice, and mobilization capabilities to provide complementary and mutually reinforcing interventions which, depending on the conditions on each country, could involve solutions to optimize the use of public resources to crowd-in private sector, leveraging risk sharing facilities.

Subject to the caveats mentioned above in terms of CoI, a WBG integrated option that could be contemplated (though each institution could play the same role separately), would be through the use of existent or new Strategic Investment Funds (SIF), in which case:

Government:

- (i) Could create, or re-activate if an existing fund exists already, a Strategic Investment Fund (SIF) to house Governments stakes in recapitalized systemic financial institutions;
- (ii) Set the governance and decision-making structure of the Fund;
- (iii) Provide, if needed, de-risking tools (for example FX risk) to encourage participation in the recapitalization program

WB:

- (i) Advise the Government in the restructuring and recapitalization process;
- (ii) Provide policy and regulatory advice to the Government on the design and governance of the SIF;
- (iii) Provide financial support (if needed) to MoF to support the creation of a SIF

IFC:

- (i) Could be a co-investor with the SIF in the private sector banks it invests in;
- (ii) Mobilize funds from other investors (DFIs, SWFs, private) to co-invest capital in the same entities
- (iii) Advisory support to the financial institutions that benefit from the investments for the restructuring of their balance sheet and/or operations to return to efficiency, performance and growth.

MIGA:

- (i) For countries rated BB- or above, MIGA can provide credit enhancement or guarantees to international lenders to provide commercial loans to such a Government-sponsored fund

Annex 12: Support for Better Business Regulation

During the COVID-19 outbreak, supporting the survival of viable, otherwise healthy private sector firms, particularly SMEs, is vital. In addition to direct financial support, governments around the world are helping the businesses through **regulatory flexibility by temporarily eliminating or reducing the administrative cost on businesses**.

A sound business environment will also be key for recovery, particularly as the health crisis has quickly become an economic one. Many businesses will not make it through, so enabling the surviving ones to bounce back quickly and allowing "old" new firms to restart will be critical.

The World Bank Group has a sizable Business Regulation portfolio. Legal and regulatory changes are not costly, which is an important consideration for fiscally constrained governments. **Ongoing and pipeline business regulation programs are already incorporating or can incorporate the following elements that support both the outbreak and recovery phases:**

Business Regulation Portfolio

	# of projects	US$ (million)
World Bank	140	21,391
IFC advisory	42	71

- Investment climate reforms, particularly legal or policy changes, are supporting emergency budget support through DPLs as triggers or prior actions. This also includes reforms to support women's economic participation.
- Suspensions of regulatory requirements. Common measures include temporarily suspending or delaying tax and social security filings, waiving fees for government transactions such as licenses, registrations or permits, or automatically extending licenses and permits for the period of the emergency, among others. Emergency periods also allow for greater flexibility concerning licensing and regulation of key professionals such as medical staff.
- Wider data collection through business registers (without regulatory compliance obligations) will allow informal or semi-formal firms' easier access to fiscal and financial packages.
- Existing government platforms on business regulatory requirements (such as licensing or one-stop shop/OSS) can be used as information dissemination platforms for COVID-related business continuity measures as well as hygiene safety measures. They can also be leveraged to expand the provision of financial support programs—many OSS include commercial banks for payments.
- Business regulation programs with functioning interagency reform coordination mechanisms can be used to make sure the financial and regulatory measures are rolled out coherently during the outbreak. They can also help governments on re-opening during the recovery phase, e.g. gradually by sector; staggered opening hours, etc.
- Digitalization of Government-to-Business services will strengthen resilience for future disruption in services. Such platforms and integration of services also have the benefit of collecting and centralizing business data, which is key for business-related policy making.
- Doing Business advisory programs include insolvency, and can be used to implement reforms aimed at facilitating reorganization or rehabilitation particularly of SMEs which under normal circumstances would be viable.

Annex 13: Sectoral Programs: Tourism, Manufacturing and Agribusiness Value Chains

The impact of COVID-19 is spreading deeply into several value chains, some of which will continue to be most affected during the 'gradual opening' phase. Many sectors have been hit-hard from tourism to manufacturing. In the case of tourism, in countries large and small, tourism value chains have now paused or stopped. The World Travel & Tourism Council (WTTC) advised on March 20, 1 million jobs are being lost in the sector every day[1].

The World Bank Group has a significant portfolio on sectoral programs for competitiveness that could be adapted and refocused to support firms in those sectors during the initial lockdown and path to recovery in order to build resilience. Currently, 334 IBRD active projects are mapped to either of the following themes: tourism; manufacturing, agribusiness, value chain and competitiveness; and ICT/digital business (Table). Some projects are already being restructured and some examples are provided below under each theme. About 15 projects have an special economic zone/spatial focus. In particular, sectoral programs could be restructured towards: (i) supporting adaptation measures to COVID19 impacts, (ii) leveraging digital solutions , and (iii) building back better and strengthen resilience in those sectors. Where relevant active and pipeline projects can be revisited to redirect matching grants and financial support to upgrading (e.g. resilience) and adaption to sanitary needs (primarily during recovery), and repurposing to essential goods.

Table: WBG Sectoral Competitiveness Programs (April 13, 2020)

	Tourism	Manufacturing and Agribusiness	Value Chain Competitiveness	ICT (Digital business)	Total sectoral competitiveness programs
IBRD	40	152		142	334
IFC *	37	23			60

*includes only EFI IFC AS, with 50% of allocation to those products

Some examples of WB restructuring tourism projects

Uganda CEDP Additional Finance – project has been approved by the Board but waiting clearance in Ugandan Parliament. Uganda CEDP-AF may i) institute systematic intra-government coordination for improved tourism response and recovery actions, ii) conduct financial health audit of tourism operators, iii) develop clear health and sanitation certification program for tourism goods and services providers in readiness for recovery, iv) support targeted tourism marketing in specific source markets/,market segments through appointing Market Destination Representatives with performance-based contracts;

Albania Project for Integrated Urban and Tourism Development is currently being restructured to fast-track the development of municipal destination management partnerships that will be supported to hire consultants to establish a Tourism Response and Recovery Task Force (TTF) within each project municipality (anchored in the Mayor's office) for the following purposes: i) Create a database (inventory) of all tourism-related goods and service providers operating in and around the destination; ii) Communicate to this database all official and necessary protocols for containment and prevention of COVID-19 spread; iii) Collect information from this database on revenue and employment losses and maintain this as a live dashboard on a digital platform; iv)Collect and share with the database information from external sources on response and recovery strategies, sources of short term

[1] https://www.wttc.org/about/media-centre/press-releases/press-releases/2020/lives-being-devastated-and-one-million-jobs-a-day-being-lost-due-to-coronavirus-pandemic/

finance or grants that may be available to stakeholders, access to on-line training or other supporting actions; v) Convene virtual (or other if appropriate) TTF meetings to prioritize requests for municipal/national actions;

IFC Advisory in Cote d'Ivoire: The program is supporting 20 SMEs in the tourism value chain. Program resources have been re-organized to now include a bespoke audit of each firm to determine their risk exposure and priority actions to survive this period of immediate stress, and be better placed to resume sales during the recovery. Each firm will receive a mentor and business coach to assist them with applying to various funds and schemes – as well as accessing training materials

Digital Business example

Example: Nepal REED Digitization of Agribusiness and Food Supply (US$1 million) under discussion: This activity will (i**)** engage local SME intermediaries to support SMEs to create/increase their online presence; ii) build ICT delivery models for training and knowledge sharing on basic business skills and entrepreneurship support and iii) engage ICT service providers to help farmers/REs integrate ICT solutions to their production and operations (e.g. remote crop monitoring, greater 'no touch' marketing, etc.).

VALUE CHAINS and RESILIENCE

Improve resilience of value chains by including a component on "Immediate Response Mechanism" (typically with a nominal amount $500K). This mechanism allows to repair or rebuild anything that the project had already done, typically public assets, and can be extended to help rebuild as well any lost private property in the value chains that the WB project is working with. After the event a Damage And Loss Assessment (DALA) is carried out, evaluating two components: i) lost revenue due to the event; ii) capital losses. This can be done in relative short term (after hurricane Matthew the DALA in Haiti was completed in 3 weeks).

Box: example of a restructuring of a Project in Haiti. The Haiti Business Development and Investment IDA grant (P123974) has reacted to the COVID19 emergency by modifying a tender originally for Fast Response Apparel to include Personal Protective Equipment (PPE). The $1m tender will support two full package service providers (companies that coordinate the supply chain and manufacturing for apparel companies), to set up a logistics platform in Haiti that receives and cuts the materials, then send it to a network of more than 150 small home based workshops (so women can stitch from home, especially during COVID19), then collects, finishes, does the Quality Control and ships abroad (or in the case of PPE also sold to the Ministry of Health).

Beyond government interventions and MDB assistance, large multinational corporations (MNCs) could also be called upon to support their suppliers. MNCs have profited handsomely from offshoring production to developing countries. Yet apparel retailers do not pay for orders until they are shipped. This practice leaves suppliers vulnerable, holding the bill for orders that have been produced but were cancelled before being shipped. The crisis has led many retailers to withhold payment or ask for discounts. Some large retailers have publicly committed to maintaining their financial obligations, but survey evidence suggests that they have not all carried through. MNCs could be called on to make verifiable commitments to paying suppliers in full. In some cases, multinationals could also be approached to pay in advance for future orders with suppliers, to maintain long-term relationships, or to supply a line of credit to ensure their survival. Protecting value chains is in the interest of the MNCs to ensure production can be restarted when the crisis is over.

Annex 14: Data on firms to inform our programs

To capture the impact of the pandemic on SMEs, guide government response strategies, and track the recovery process, EFI is launching a new survey instrument in collaboration with DEC. The COVID-19 BUSINESS PULSE SURVEY (COV-BPS), currently being piloted in Bangladesh, Brazil, Kenya, and Senegal, is a rapid survey to collect high frequency data from enterprises to better understand the impact of the COVID-19 pandemic on businesses across countries, with a particular focus on SMEs. COV-BPS contains questions which aim to capture the effects of the pandemic on firms through each of the four distinct channels of impact described in the main text of this note: supply, demand, financial, and uncertainty, as well as firms' adjustment strategies and their views on public support programs to mitigate the effects of the pandemic. Where feasible, COV-BPS will be implemented as a panel, reinterviewing firms every 8-12 weeks. The survey is designed to be implemented using Computer-Assisted phone or web interviews (CAPI/CAWI), and the core modules of the surveys take approximately 10 minutes to complete. Additional modules which focus on the needs of micro/informal firms as well as specific sectors or issues such as supply chains, tourism, and medical goods/services have also been developed.

Another important group of firms are multinational corporations (MNCs) who shaped the geographic evolution of GVC participation over the last three decades. MNCs account for 22 percent of global output and contribute about 80 percent of total trade (UNCTAD 2013). **EFI launched a pulse survey at the end of March 2020 among the MNCs** to understand the impact of the COVID-19 outbreak on their business and what governments can do to help. The survey explores the impact on supply chain, liquidity, worker productivity, investment, production, revenue, profits, employment, and supply chains. In terms of government support, investors are asked to rank the importance among financial support (such as grants, credits, guarantees), suspensions of financial obligations (e.g. tax relief, debt), trade finance, relaxing business and labor regulations, as well as timely information dissemination of government support related to COVID-19.