

How Has the COVID-19 Pandemic Affected Micro, Small, and Medium Enterprises' Use of Online Banking?



The COVID-19 pandemic has significantly accelerated the digitalization of micro, small, and medium enterprises (MSMEs) in Latin America.



The shift from in-person to online banking transactions has been both significant and permanent, becoming more important not only during the lockdowns but also after the economic recovery.



This digital transformation has been observed across all industries, firm sizes, and geographical locations, indicating a broad-based response to the pandemic's challenges.

CONTEXT

The COVID-19 pandemic has generated a large negative external shock to the global economy, affecting businesses worldwide, including MSMEs. Economic, health, and mobility restrictions have impacted consumers' ability to access goods and services and firms' profitability and survival rates. This situation was particularly critical for Latin America, which had the worst performance among world regions in handling the health crisis and suffered the worst contraction of its economy. Under these challenging circumstances, it is crucial to closely analyze and understand the adaptation and performance of MSMEs in response to this abrupt shock.

PROJECT

This study analyzed the impact of the COVID-19 pandemic on MSMEs in Latin America, focusing on the shift from in-person to online banking transactions. We used financial firm-specific transactional data from 2019 to 2021 from six countries (Brazil, Chile, Colombia, Mexico, Paraguay, and Peru) to observe changes in MSMEs' financial behavior during the pandemic. We also used cross-sectional data on key characteristics of MSMEs, including firm size, geographical location, and the economic sectors in which they operate. The objective was to understand how these firms adapted to the new economic environment and the role of digitalization in this process.

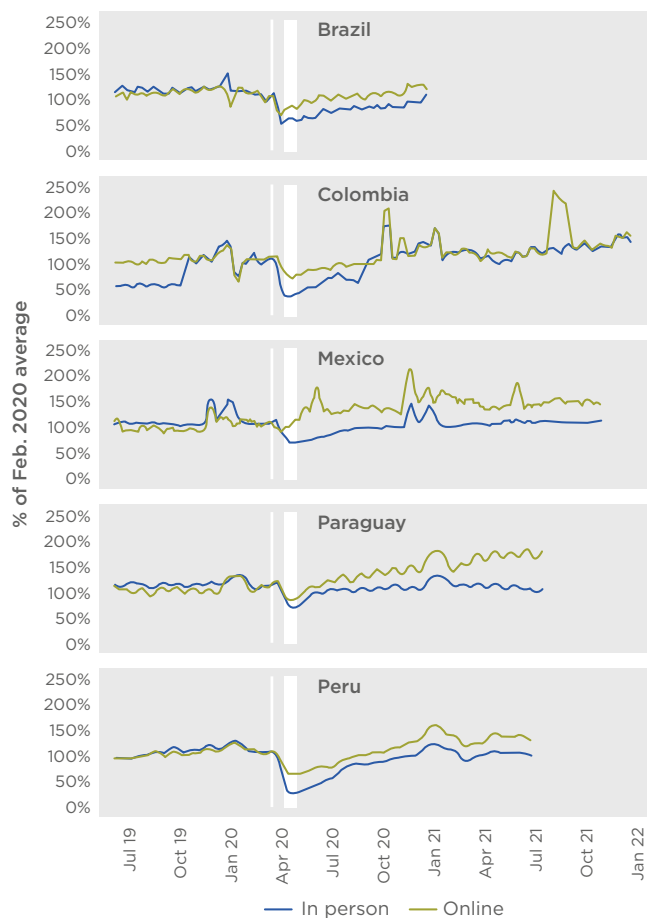
RESULTS

Our results show a salient decline in revenues for in-person, online and total deposits immediately after the implementation of the first wave of the Latin American COVID-19 lockdowns. There is also evidence of heterogeneous effects of the pandemic on different economic sectors. As expected, the pandemic has negatively affected economic sectors that rely more on social gatherings and closer social contact, such as airlines, restaurants and bars, and entertainment venues. Conversely, economic sectors that do not need to rely on close social contact to continue operating, such as agriculture and manufacturing, experienced a smaller decline in earnings and faster recovery after the implementation of economic relief programs.

Furthermore, our main finding is the significant and persistent shift from in-person to online banking transactions. This shift began right after the implementation of the first wave of lockdowns in March 2020. The transition to digital transactions appears to be permanent since the proportion of online to in-person transactions has remained stable a year and a half after the first lockdown was implemented ([see figure 1](#)).

This substitution pattern and the financial technology adoption are present across all industries, firm sizes, and geographical locations. Industries facing higher physical exposure to the public, such as retailers, experienced a more considerable decline and a slower recovery. The study also found that MSMEs located in the capital cities of the countries studied have been obtaining a percentage of their deposits through online channels equal to or larger than that of regional MSMEs. This indicates that the digital transformation was more pronounced in urban areas.

Figure 1. Total Amount of Deposits by Country and Type of Transaction



Note: This figure shows two-week rolling means of the total amount of MSME deposits by country and transaction type, as a percentage change from the February 2020 mean. The gray line indicates the date of the first lockdowns in the sample, and the gray rectangle indicates range of dates of economic relief packages for MSMEs in sample.

POLICY IMPLICATIONS

We believe our findings will help policymakers understand the heterogeneous impact of the economic relief programs so that future programs can improve through more efficient targeting. Economic relief programs should focus on specific economic sectors and firm locations depending on the nature and scope of adverse shocks. Mobility restrictions have different effects across industries and locations, so their impact should be considered in order to effectively support small and medium enterprises during times of economic crisis. Second, we think the evidence presented in this paper shows that increased financial technology adoption and adequate digital infrastructure are crucial to help small businesses in developing economies adapt to temporary economic crises. Most of these firms are still fragile businesses and face frequent short-term financial constraints. Facilitating access to digital financial resources will allow them to adjust faster during the next negative economic shock.

Key Concept



DIGITALIZATION

Using digital technologies to modify, enhance, or transform existing business processes, activities, models, or competencies.



FULL STUDY

[Cerda, Maicol, David Cervantes, Paul Gertler, Sean Higgins, Ana María Montoya, Eric Parrado, Carlos Serrano, Raimundo Undurraga, and Patricia Yáñez-Pagans. 2023. "COVID-19 Pandemic and SMEs' Performance in Latin America." IDB Working Paper No. 1335. Washington, DC: Inter-American Development Bank.](#)

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