Government Interventions to Support SMEs during the COVID-19 Pandemic

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YALE PROGRAM ON FINANCIAL STABILITY

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## Policy Tools for Supporting SMEs

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<th>Financial Support</th>
<th>Forbearance and Policy Changes</th>
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## Considerations in Designing Support for SMEs

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<th>What monetary or non-monetary assistance is provided?</th>
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<td>Channel</td>
<td>How is the assistance provided to SMEs?</td>
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<td>Package</td>
<td>Does the assistance need to be combined with a different type of assistance to be effective?</td>
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<td>Size</td>
<td>How large is the total program and how much can be provided to each SME?</td>
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<td>Which SMEs are eligible for assistance?</td>
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<td>How long will assistance be available?</td>
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<td>Risk Sharing</td>
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<td>Conditions</td>
<td>Will SMEs have to adhere to requirements as a result of accepting assistance?</td>
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<td>Exit Strategy</td>
<td>How will the government rollback support while minimizing financial and economic stability risk?</td>
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### Increasing an SME’s debt burden may not be an ideal approach

- Unlike past crises, **grants, subsidies, forgivable loans, and equity instruments** are more common
- Countries such as Austria, Denmark, and the Netherlands are **providing fixed cost subsidies** for SMEs
- Many countries **directly subsidize wage costs**, similar to the short-time work scheme model from Germany, Kurzarbeit
- Recent **analysis** shows variation across 16 European countries in the ability to take on additional debt

### Offering debt programs with “equity-like” features can prevent SMEs from being overburdened

- Federal Reserve **extended loan terms and deferred amortization** under Main Street Lending Program after feedback
- Ireland’s Sustaining Enterprise Fund is a **hybrid** of repayable advances and equity instruments
- Hungary’s Funding for Growth Go! Scheme has a **maximum term of 20 years**
- France and Germany created programs for startup SMEs to access financing in the form of **convertible bonds or hybrid instruments**
- Australia encouraged but did not require banks to provide **lines of credit** rather than loans under its credit guarantee to allow SMEs to use only what is needed and minimize future payment burdens
Encouraging or supporting **technology or digitalization** can help companies adapt to rapid changes in the economy and keep employees safe.

- **Greece**, **Italy**, and others set up **digital platforms** to connect SMEs with free services, training, and vendors.
- **Germany** provided **grants for consulting services** for SMEs to adapt to the crisis.
- **Japan** provides vouchers to SMEs for **remote working solutions**, such as the purchase of equipment.
- **Singapore** provided grants for **stall holders** to adopt **electronic payment technology to minimize contact risk**.
- **Malaysia** and **Spain** set up credit facilities for SMEs to buy or lease **digital equipment or services**.
### Interesting Features or Challenges under “Channel” Consideration (1)

| **Leveraging existing agencies** can get money to SMEs faster | • Germany’s development bank, KfW, is responsible for COVID-19 direct lending and guarantees  
• Korea increased funding for the Korea Credit Guarantee Fund (KODIT, est. 1976) and Korea Technology Finance Corporation (est. 1989) to provide guarantees to SMEs during COVID-19 pandemic |
| --- | --- |
| **Including both bank and nonbank lenders** can account for multiple sources of SME financing | • Crowdsourced lending is covered in France’s credit guarantee scheme  
• US Paycheck Protection Program (PPP) includes non-bank fintech companies such as Intuit and Paypal |
| **Streamlining** the application process can speed up distribution of funds | • Switzerland’s application requires less documentation and is easily available online, and firms have reported receiving funds in a few hours  
• Austria’s AWS implemented a fast-track process with reduced documentation  
• The US amended the loan forgiveness application for the PPP and created a new “EZ” application |
Interesting Features or Challenges under “Channel” Consideration (2)

Considering how to provide aid that reaches firms and employees that are not registered is important for countries with large informal sectors

- **Burkina Faso** suspended fees charged on informal sector operators for rent, security, and parking
- **Gabon’s** government created a lending mechanism for informal and formal SMEs to access commercial bank financing

Changing tax policies is one way governments can provide near-immediate relief to SMEs

- Indonesia **reduced corporate income tax** by 30%, while **Spain** provides a 6-month deferral on income, VAT, and corporate taxes for SMEs
- **Vietnam, Sweden**, and several other countries provide exemptions, reductions, or deferrals for payroll, social security, VAT taxes, and property taxes for SMEs

Reducing fixed or debt expenses where **governments are the landlord or creditor** to an SME can also be a relief measure adopted quickly

- **Countries** like St. Lucia, Bhutan, Russia have **waived rent payments** for all SMEs for whom the government is the landlord
- In **Malaysia**, the government extended rent waivers to government linked companies like the state-owned oil and gas company (Petronas)
- **Romania, Guinea, Brunei**, and Israel provide temporary deferrals on many utilities
Some programs inherently require, or benefit from, additional programs:

- Debt moratorium in Italy in conjunction with government guarantee on portion of suspended payments
- In Lithuania, Czech Republic, Vietnam the governments required landlords to reduce rent for SMEs, but then the government itself paid a portion of the reduction to the landlord
- UK paired credit guarantee schemes and central bank funding for lending (TFSME)

In countries with large informal sectors, support to formal SMEs may need to be accompanied by support to individuals:

- North Macedonia expanded unemployment to include 20,000 informal households
- Thailand grant of 5,000 baht per month for three months for informal workers to reach 14.5 million
- Nepal NPR 5b public works program
Interesting Features or Challenges under “Size” Consideration

Most countries **underestimated the demand** for their small business support programs and increased the amount of funding, often significantly.

### Credit Guarantees
- **Israel** increased total funding by a factor of **5.5** (NIS 4bn to NIS 22bn)
- **Italy** increased total funding by a factor of **5** (EUR 100bn to EUR 500bn)
- **Switzerland** **doubled** total funding (CHF 20bn to CHF 40bn)

### Funding for Lending
- Total funding for lending in US of up to $1.3tn (**PPPLF** and **MSLP**)
- No limit on **UK funding for lending**
- Total funding in **Australia** of AUD 90bn
- Total funding in **Saudi Arabia** of SAR 13.2 billion

### Direct Lending
- **EUR 400 million credit line** for most impacted sectors in Spain
- **Croatia** created a new COVID-19 loan with total funding of HRK 380m ($57m)
- **Czech Republic’s** “COVID I” program quickly ran out of CZK 1bn in funding and new programs were launched
- **Germany’s** KfW special program has “unlimited funds”

### Grants
- **US** **nearly doubled** funding for forgivable loans ($349bn to $659bn) and **doubled** funding for grants ($10bn to $20bn)
- **Australia** offered grants of up to AUD 100k per business in a program estimated to cost AUD 31.9 bn
- Total funding of EUR 50bn for grants to **German** SMEs
Interesting Features or Challenges under “Eligibility” Consideration

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<tr>
<th>Targeting assistance too narrowly (i.e. firm eligibility) can slow down the provision of support and will prevent firms that actually need support from receiving it</th>
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<td>• <strong>Spain’s</strong> Credit Guarantee Program released in <strong>tranches</strong></td>
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<td>• <strong>US PPP</strong> faced <strong>pushback</strong> regarding large, publicly-traded recipients</td>
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<td>• <strong>Startups</strong> initially <strong>excluded</strong> in Switzerland guarantee scheme</td>
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<tr>
<td>• <strong>EU</strong> modified state aid rules to allow “<strong>undertakings in difficulty</strong>”</td>
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<tr>
<td>• <strong>Peru</strong> lowered credit rating requirements for credit guarantee scheme</td>
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Expanding support programs to include **SMEs in the informal economy** is particularly important for emerging markets

| • **Malaysia** emergency grant program for **micro-SMEs**  |
| • **Gabon** USD 375m to facilitate access to commercial bank financing for formal and informal  |
Interesting Features or Challenges under “Duration” Consideration

Ensuring the program’s end date isn’t too soon prevents the need for governments to formally extend

- **US PPP** extended covered period from 8 to 24 weeks
- **Canada** rent support extended by 1 month
- **Germany’s** short-time work scheme (Kurzarbeit) maximum duration extended to 21 months
- **Denmark** prolonged application period for credit guarantee
### Interesting Features or Challenges under “Risk Sharing” Consideration

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<th>Aligning incentives can encourage more private-sector lender participation</th>
<th>There has been an increase in 100% guarantees (initially Japan, Hong Kong, Korea), and EU countries now have 100% guarantees (up from a 90% limit)</th>
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<tr>
<td>No defaults will not be the sign of a successful credit guarantee or lending program</td>
<td>Countries have increased the ceiling on interest rates (US) and fees banks can charge on credit guarantee programs and lowered fees</td>
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<tr>
<td>High levels of due diligence required by lenders can limit the overall participation levels</td>
<td>Credit guarantee program success is dependent on underlying macroeconomic conditions (fear of high defaults in UK, Italy)</td>
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<td>Fed increased participations in MSLP loans for all loan types to 95% (some had been 85%)</td>
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<td>UK removed requirement that SMEs prove they were unable to access funding elsewhere</td>
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<td>Germany’s KfW 100% guarantee program does not require banks to perform credit check</td>
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Interesting Features or Challenges under “Conditions” Consideration

| Strict limitations on how assistance can be used can lead to underutilization and require later changes to the program or even entirely new programs | • The [US PPP](#) requirement to spend 75% on payroll was modified after significant pushback  
• [Brazil](#) requires SMEs to commit to retaining employment numbers until 2 months after loan disbursed  
• [Denmark’s](#) approach includes multiple programs and interventions with each targeting a different type of expense such as wages, fixed costs, taxes  
• [Belgium’s](#) credit guarantee program excludes refinancing of existing debt |

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### Interesting Features or Challenges under “Exit Strategy” Consideration (1)

By design, some tools incorporate an exit strategy while others may be harder to unwind.

- Lending programs with deferred amortization, deferred payments delay the burden of repayment until economic conditions improve.
- UK, Germany, and the EU outline exit strategies for the government to sell their ownership.
- Moratoria or payment deferrals that require immediate repayments at the end of the period may place an unmanageable burden on small businesses.
- Italy’s loan and mortgage moratoria is combined with a state guarantee of 33% on payments which may lessen the impact of future defaults.
- France extended the duration of the EUR 1,500 grants for all micro-enterprises under the Solidarity Fund in June but will target future payments to only the hardest hit sectors.
Some countries have explicitly budgeted **extra contingency funds** given the uncertainty of a second wave to replenish emergency programs

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<td><strong>Spain</strong></td>
<td>released funding for its EUR 100 billion credit guarantee scheme in <strong>tranches to adapt to changing economic conditions</strong> and the needs of the most impacted sectors (such as tourism) but the determination of which sectors receive aid does not appear to be tied to economic indicators</td>
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Tying support to **economic or health indicators** can enable a government to quickly support SMEs if conditions change rapidly

- **Singapore** set aside SGD 13 billion in its contingency fund that can be more easily mobilized in a second or third wave.
- During Israel’s ongoing second wave, the government faced pressure to quickly pass an emergency budget response.
- **Spain** released funding for its EUR 100 billion credit guarantee scheme in tranches to adapt to changing economic conditions and the needs of the most impacted sectors (such as tourism) but the determination of which sectors receive aid does not appear to be tied to economic indicators.
Supporting Materials

YPFS COVID-19 Landing Page
YPFS COVID-19 Financial Response Tracker
YPFS Systemic Risk Blog posts related to SMEs
YPFS SME Credit Guarantee Scheme Resource Guide
YPFS SME Credit Support Program Utilization