

Government Interventions to Support SMEs during the COVID-19 Pandemic

YALE PROGRAM ON FINANCIAL STABILITY

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Policy Tools for Supporting SMEs

Financial Support

- Grants/subsidies
- Forgivable loans
- Direct lending
- Loan participations
- Funding for lending
- Credit guarantees
- Equity instruments

Forbearance and Policy Changes

- Payment forbearance
- Tax policy changes
- Bankruptcy and insolvency policy changes

Considerations in Designing Support for SMEs

Type	What monetary or non-monetary assistance is provided?
Channel	How is the assistance provided to SMEs?
Package	Does the assistance need to be combined with a different type of assistance to be effective?
Size	How large is the total program and how much can be provided to each SME?
Eligibility	Which SMEs are eligible for assistance?
Duration	How long will assistance be available?
Risk Sharing	How is risk shared among the responsible parties?
Conditions	Will SMEs have to adhere to requirements as a result of accepting assistance?
Exit Strategy	How will the government rollback support while minimizing financial and economic stability risk?

Interesting Features or Challenges under “Type” Consideration (1)

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

Interesting Features or Challenges under “Type” Consideration (2)

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**

Interesting Features or Challenges under “Package” Consideration

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)

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”

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

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

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

- [Spain's](#) Credit Guarantee Program released in **tranches**
- [US PPP](#) faced **pushback** regarding large, publicly-traded recipients
- [Startups](#) initially **excluded** in Switzerland guarantee scheme
- [EU](#) modified state aid rules to allow “**undertakings in difficulty**”
- [Peru](#) **lowered credit rating** requirements for credit guarantee scheme

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

Aligning incentives can encourage more private-sector lender participation

- 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)
- Countries have **increased the ceiling** on interest rates (US) and fees banks can charge on credit guarantee programs and lowered fees

No defaults will not be the sign of a successful credit guarantee or lending program

- Credit guarantee program success is dependent on **underlying macroeconomic conditions** (fear of high defaults in [UK](#), [Italy](#))
- [Fed](#) **increased participations** in MSLP loans for all loan types to 95% (some had been 85%)

High levels of **due diligence** required by lenders can limit the overall participation levels

- [UK](#) removed requirement that SMEs prove they were **unable to access funding** elsewhere
- [Germany's](#) KfW 100% guarantee program does not require banks to perform **credit check**

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

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**

Interesting Features or Challenges under “Exit Strategy” Consideration (2)

Some countries have explicitly budgeted **extra contingency funds** given the uncertainty of a second wave to replenish emergency programs

- [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

Tying support to **economic or health indicators** can enable a government to quickly support SMEs if conditions change rapidly

- [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](#)