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# Support for business during the coronavirus crisis

## An international comparison

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# About this report

The coronavirus crisis has led to widespread economic disruption across the world and prompted governments to step in with wide-ranging support for businesses and households. This report summarises how national and subnational governments in nine advanced economies have so far supported businesses during the crisis through grants, tax cuts and tax deferrals, loans and equity stakes. We highlight common themes and differences in the design and generosity of policies and how they are delivered and present early evidence on their effectiveness.

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# Summary

The coronavirus crisis and the subsequent restrictions imposed by governments have put businesses under severe strain across the world. Many businesses have been forced to close for some time, have had difficulties working at full capacity due to social distancing, or seen demand decline due to public economic and health fears. In response, governments have rolled out various policies to support businesses. The aim of these is to prevent a crisis of liquidity turning into a crisis of solvency that would lead to widespread business failure and permanent economic damage. This report looks at the support offered to businesses in Canada, France, Germany, Ireland, Japan, New Zealand, Norway, Singapore and Sweden.

The policies that these governments have adopted can be split into two categories. The bulk of policies (particularly in the early stages of the crisis) were aimed at helping all businesses survive the initial shock caused by the spread of the virus and – in most cases – extensive economic lockdown. These 'rescue' policies have been particularly focused on cashflow, ensuring businesses received money quickly to avoid their being forced into bankruptcy as revenues dried up. A second set of policies has focused on helping the economy 'recover' and restructure once the threat of Covid wanes.

The countries we examine in this report have used a similar set of tools to help businesses as has the UK: deferring and cancelling some business taxes; offering grants to struggling firms; and guaranteeing or directly providing loans to ease cashflow problems. Table 1 summarises the main measures each country has implemented.

Many of these schemes have been open to all businesses but all the countries in this study also provided some sector-specific support, mainly to those firms that have been hardest hit – usually the travel, tourism or hospitality industries – but also to start-ups, exporting firms and strategically important businesses. All governments have targeted the most generous support at smaller firms. This latter targeting has been justified in most cases by the fact that the majority of employees in those countries work for small and medium-sized enterprises (SMEs) and that those firms had fewer resources to deal with a crisis. None bar Germany has yet used government equity investment as a central part of their overall package of business support, although several countries have taken stakes in national airlines. Most countries that have provided equity injections or large-scale loans to big businesses have required the companies to fulfil certain criteria, notably on restricting dividends and senior pay and meeting environmental targets.

This picture of uniformity, despite varied economic models and political leadership, reflects the uniformity of the shock experienced by governments, and the fact that governments were generally keen – particularly in the early stages of the crisis – to do everything in their power to support businesses through a large, very rapid and predominantly government-induced economic shutdown.

But the precise design and delivery of the policies has varied across countries. Because of the speed with which governments had to respond, many of the schemes have made use of existing policies and institutions. For example, governments have channelled

lending to businesses through state-owned banks and state investment agencies and helped businesses with their cashflow by allowing firms to defer tax payments or claim refunds of previous years' taxes.

Because of the scale of the crisis and its widespread impact, most of the policies have been designed and funded by central government. In most of these countries, subnational governments did not have the fiscal firepower to provide the scale of support needed. The extent of the economic hit from Covid has also not been well-correlated with subnational governments' fiscal capacity – so there has been a need for within-country redistribution of resources by central government.

But most countries have made use of subnational authorities and public bodies to help implement business support programmes and some subnational governments have designed and funded their own schemes, which have mainly been used to target support at the types of businesses or sectors that are deemed most important in a particular area. The extent of support provided to businesses at a subnational level has been particularly high in Germany, Japan, France and Canada, the largest economies included here and – in the case of Germany and Canada – the only federations.

To the extent that support has been provided at a subnational level, it has generally been provided at a state/region/prefecture level (that is, at the first step down from the federal or central government). In larger countries, support provided to businesses at a local level has an advantage over national support, in that it can be adapted to suit local conditions and distributed according to specific local knowledge of the businesses in need.

In designing these schemes, governments have had to weigh up competing concerns. There is the risk that taxpayer money is wasted by programmes that distribute money quickly and widely but are poorly targeted and so have significant 'deadweight' costs – giving money to firms that could survive on their own. Early in the crisis, this concern had to be weighed against the risk of imposing too many conditions (in the hope of targeting money more effectively) and risking viable businesses going under and the country suffering greater long-term economic harm from coronavirus than necessary. But as the crisis wears on – and particularly if evidence emerges that some of the changes induced by Covid may be long-lasting – governments may be keen not to spend money keeping businesses afloat that have no long-term future, hindering economic restructuring and weighing on growth for many years.

With the health crisis and resulting economic disruption still ongoing, it is not possible to judge the success of the business support policies pursued by these governments fully. This must be done by assessing their long-term, as well as short-term, impact – as well as how well they matched the different priorities set out by each government. However, there are still some ways we can assess their effectiveness at this early stage:

**Usage**: The schemes cannot help if they are not used. There has been considerable variation in how widely schemes have been used, particularly among government-supported loan schemes, which have distributed between 5% of GDP (France) and 0.05% of GDP (Sweden) in funding to businesses. This variation is partly attributable to the generosity and design of the schemes.

**Taking and managing equity stakes effectively**: The OECD recommends that governments that take equity stakes in companies should do so transparently, with clear guidelines published on the criteria for government intervention. It also recommends that stakes should be taken in such a way that best preserves state capital, even at the cost of current shareholders. Countries have generally not been sufficiently transparent about their criteria for intervention, but there are some examples of good practice in forcing haircuts on shareholders.

**Firm bankruptcies**: One of the key objectives of policies early in the crisis was to prevent viable businesses going under because of liquidity problems. Data on the prevalence of bankruptcies suggests all the countries we examine have done enough to avert widespread business failure so far. However, there are some signs that policy in some countries may be hampering the normal process of 'creative destruction' in the economy: bankruptcy rates have, for example, dropped well below 2019 levels in Canada, Germany and Norway.

**Timing**: While countries have often used similar policy tools, slow delivery or inappropriate timing of measures has sometimes hindered effectiveness.

Looking at these measures gives some indication of how countries have performed so far. But there are significant decisions still awaiting governments, especially in whether to extend or adapt current support schemes, how to account for localised or sectoral restrictions and how much to prioritise the preservation of businesses versus letting failing businesses go under to enable economic restructuring. These choices are likely to shape the success or failure of the support provided so far.

To make most efficient use of taxpayer money, **any new schemes that countries adopt should focus on the issues companies face at this stage of the crisis, rather than trying to compensate those who were hardest hit in the spring**. Examples include focussing specifically on the firms or parts of the country still forced to close by government, or targeting sectors that are still suffering from particularly low demand but where demand is ultimately expected to return (for instance, tourism).

A longer drawn out recession, which would turn a crisis of liquidity into a crisis of solvency, may demand **more imaginative use of equity and grants rather than loans**, because unaffordable loans will weigh on future firm behaviour. However, any such grants or equity injections must be accompanied by a tougher attitude towards the economic prospects of the businesses being helped.

As and when firms have greater certainty about what the future holds, governments should **consider schemes to encourage restructuring and adaptation in business**. Targeted schemes, funding businesses to innovate and change their operating models to adapt to the post-crisis economy, may be useful, especially when linked to maintaining employment.

Table 1 **Main coronavirus business support measures (March to September 2020)**

| | UK | Canada | France | Germany | Japan | Ireland | New Zealand | Norway | Singapore | Sweden |
|---|---|---|---|---|---|---|---|---|---|---|
| **Tax cuts** | 2020/21 business rates cancelled for retail, hospitality and other sectors defined by devolved govs. | N/A | Business taxes cancelled for SMEs forced to close. SSCs cancelled on application. | Loss carryback up to €1m. | Loss carryback if cash reserves <¥1bn (£7.5m). Consumption and property taxes cancelled for hardest hit. | Business rates March–Sep cancelled for significantly disrupted firms or those forced to close. | Loss carryback scheme. | SSCs reduced from 14.1% to 10.1% for May and June; loss carryback up to NOK30m (£2.5m). | Property taxes reduced for all businesses, waived entirely for worst affected sectors; corporation tax reduced by 25%. | Social security contributions March–June cancelled for first 30 employees. |
| **Tax deferrals** | VAT due March–June 2020 automatically deferred until 2021/22. Other business taxes on request. | Corporation tax deferred until 31 August. | On request, SSCs deferred for three months and property taxes until end year. | On request, SSCs deferred until June 2020 and other business taxes until December. | On request, all national business taxes and SSCs deferred for one year. | On request, all business taxes deferred for a time, decided on case-by-case basis. | Fewer businesses have to pay 'provisional' business tax early. Business taxes deferred on request. | SSCs automatically deferred until 15 August 2021, business tax until 1 September 2020. | Corporation tax automatically deferred for three months. | VAT and SSCs deferred for up to 12 months retrospectively from 1 January 2020. |
| **Grants** | Cash grants up to £25k to businesses based on sector and property value, designed by devolved govs and distributed by councils. | 50% rent April–September up to CA$25k (£15k) pcm. 25% of value of CEBA loans (up to CA$10k (£5.9k)) forgiven. | Up to €1.5k (£1.4k) pcm for SMEs losing 50% turnover. Up to €10k (£9.2k) one-off for serious cases in worst affected sectors. | Up to 70% of fixed costs until August 2020 up to €150k (£140k) for businesses with at least 60% revenue fall. | ¥2m (£15k) for SMEs with 50% revenue fall. Two thirds of rent up to ¥500k (£3.7k) pcm for businesses with 30% revenue fall. | Value of 2019 business rates up to €25k (£23k), for SMEs with a 25% revenue fall or to fund business innovation. | N/A | 80-90% fixed costs March–August, multiplied by % turnover loss – up to NOK80m (£6.7m) pcm – for those losing 30% turnover. | Grants to cover rent for SMEs and government tenants. 80–90% funding for projects to expand market access, improve productivity or change business (EDG). | 22.5–75% fixed costs for March/April 2020, up to SEK150m (£13m), for SMEs losing 30% revenue. 25% of rent in some sectors. |
| **Main small business loan scheme** | 100% guarantees on bank loans of 25% of turnover up to £50k, government pays first year's interest. | CEBA scheme offers 100% guarantees on no-interest bank loans up to CA$40k (£24k). | Bpifrance (BPI, state-owned bank) offers 90% guarantees on bank loans to SMEs up to 25% turnover. | KfW (state-owned bank) offers 100% guarantees on bank loans up to 25% revenue or €800k (£730k); two-year interest delay on request. | JFC directly or through development banks lends up to ¥300m (£2.2m) to SMEs; zero-interest on application. | SBCI (state-owned bank) offers direct lending up to €1.5m (£1.4m) to SMEs, or 80% guarantees on bank loans up to €1m (£0.9m). | Direct lending from Inland Revenue to SMEs, up to NZ$100k (£51k) (NZ$10k plus NZ$1,800 per employee). Interest-free if repaid in a year. | 90% guarantees on bank loans up to NOK50m (£4.2m). | 90% guarantees on bank loans up to S$1m (£670k). | National debt office 70% guarantees bank loans of 25% of annual revenue, up to SEK75m (£6.6m). |

| | UK | Canada | France | Germany | Japan | Ireland | New Zealand | Norway | Singapore | Sweden |
|---|---|---|---|---|---|---|---|---|---|---|
| **Main large business loan scheme** | 80% guarantees of loans up to 25% of turnover, maximum £200m. | 75% guarantees up to CA$80m (£47m). Unlimited direct loans from state investment agency. | BPI 70-80% guarantees on bank loans up to 25% turnover; no limit on size. | ESF €400bn (£370bn) fund guarantees new loans/liabilities with no upper limit. | JFC lends up to ¥50bn (£370m) directly or through development banks to large firms with 5% turnover fall. | Large, strategically important businesses can access customised ISIF support, including loans. | 80% government guarantee of bank loans to large businesses up to NZ$5m (£2.6m). | 90% guarantees on bank loans up to NOK50m (£4.2m). | N/A | Above scheme can be extended to SEK250m (£22m) in exceptional cases. |
| **Additional business loan schemes** | CBILS 80% guarantees on bank loans up to £5m, government pays first year's interest. | Direct lending from Business Development Canada up to CA$100k (£59k). 80% guarantee on loans up to CA$6.25m (£3.7m) | *Pret Rebond* up to €300k (£280k) interest-free loans to SMEs dependent on region. Funded by BPI and regional governments. | KfW special programme 80-90% guarantee bank loans up to 18 months' financing requirements or €1bn (£9.2bn). | JFC lends up to ¥720m (£5m) to SMEs. Local credit bodies guarantee 80–100% of SME loans up to ¥280m (£2m). | Microfinance Ireland (government agency) direct €25K (£23K) loans, zero interest in first year. | N/A | N/A | 90% guarantees on temporary bridging loans from banks up to S$5m (£2.9m). | N/A |
| **Equity stakes** | Loans to innovative, equity-funded businesses up to £5m which convert to equity at next funding round. | LEEFF includes provision for state to gain stake in large companies equivalent to 15% of loan. | BPI convertible bonds or direct equity investment in startups. BPI insures investors in 'relaunch' SME equity funds. Co-financed SME convertible loans. | ESF recapitalisation fund uses equity, loan and hybrid support to invest in strategically important large companies. | N/A | ISIF invests in strategically important large businesses through mixed equity, loan and hybrid support. | Tailored aid to large firms viewed as critical to the economy. So far only used for $900m (£460m) convertible loan to Air NZ. | N/A | Investment agency co-invests in start-ups. Sovereign wealth fund Temasek buys shares and convertible bonds in Singapore Airlines. | Ad-hoc share purchase and capital injections in strategically important companies. Thus far only equity investment is in Scandinavian Airlines (SAS). |
| **Conditionality** | Limits on executive pay, share buybacks and dividends for companies receiving loans over £50m. | CEBA and LEEFF limit executive pay, dividends; LEEFF recipients must publish annual climate assessment. | Large loan recipients can't issue dividends or share buybacks in 2020. Air France must reduce emissions. | No dividends, executive bonuses or high pay for recipients of ESF support. | N/A | Restart grant recipients must commit to reopening and not reducing staff levels. | No dividends or share buybacks for Air NZ until loan is repaid. | N/A | All EDG recipients must include provision for wage increases, job creation or training. | No dividends or bonuses until guaranteed loans repaid. SAS must show business plan in line with reducing emissions. |

| | UK | Canada | France | Germany | Japan | Ireland | New Zealand | Norway | Singapore | Sweden |
|---|---|---|---|---|---|---|---|---|---|---|
| **Support for start-ups** | £550m extra funding for Innovate UK grants and loans to research-intensive SMEs. | Grants for innovative young firms through research council. | €4bn (£3.7bn) in loans to support start-up cashflow. Two BPI funds offer convertible bonds to SMEs. | €2bn (£1.8bn) for state investment bodies (KfW) to invest in startups.- | N/A | Enterprise Ireland scheme to co-invest up to €800k (£730k) in R&D-heavy firms. | N/A | Co-funded loans & grants for young firms, up to NOK5m (£400K) per company. | See 'equity stakes' above | State investment company has a budget of SEK3bn (£260m) to finance bridge loans to entrepreneurial SMEs. |
| **Support for exporters** | Public reinsurance on up to £10bn in trade credit insurance. | N/A | Public reinsurance on up to €10bn (£9.2bn) in trade credit insurance. | €30bn (£28bn) guarantee of payouts from credit insurers. | Loans to export businesses or those with foreign operations. | N/A | Subsidies and logistical help to keep air freight channels running. | Credit insurance guarantees up to NOK20bn (£1.7bn). | Trade loans up to $10m (£6m). 50% subsidy for premiums on political risk insurance for exporters. | Export credit guarantees increased to SEK500bn (£44bn). |
| **Additional subnational schemes** | Devolved SME grant programmes like Pivotal Enterprise Resilience Fund in Scotland. | Provinces offer own grant and loan schemes. Extra funding for regional development agencies. | Additional regional grant and loan schemes targeted towards regionally important sectors. | State guarantee banks offer increased loan guarantees. Bavaria has its own investment fund. | Prefecture and city governments offer their own loan, grant, and rent subsidy schemes. | N/A | N/A | Some regional SME innovation funds give out grants. | N/A | N/A |

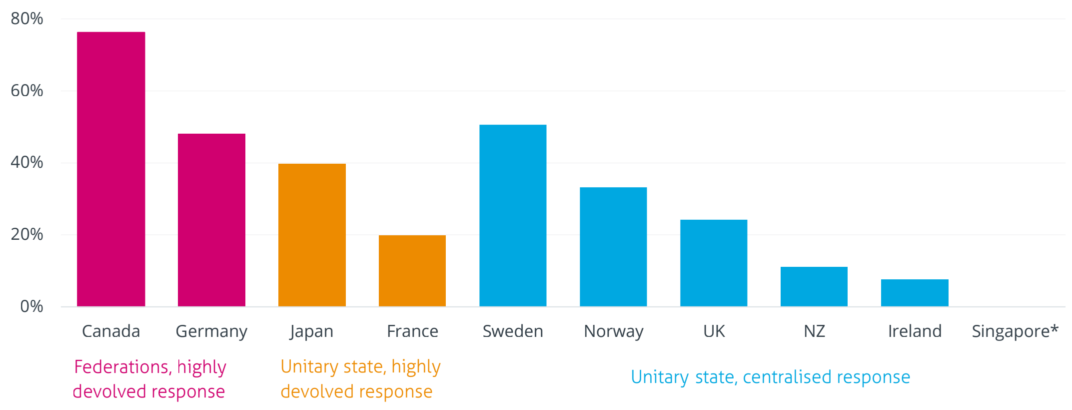
Source: Institute for Government analysis. Boxes in dark pink only contain policies implemented on a subnational level; boxes in light pink contain some subnational schemes. BPI = Banque Publique d'Investissement. CEBA = Canada Emergency Business Account. EDG = Enterprise Development Grant. ESF = Economic Stabilisation Fund. ISIF = Ireland Strategic Investment Fund. JFC = Japan Finance Corporation. KfW = Kreditanstalt für Wiederaufbau. LEEFF = Large Employer Emergency Financing Facility. SAS = Scandinavian Airlines. SBCI = Strategic Banking Corporation of Ireland. SME = small and medium-sized enterprises. SSCs = social security contributions. pcm = per month. VAT= value added tax.

# Introduction

The coronavirus pandemic has, first and foremost, been a public health crisis. But the economic disruption it has caused has resulted in major difficulties for businesses across the world. This disruption has arisen both from government decisions to shutdown parts of the economy and impose social distancing restrictions, and from individuals' wariness of interacting with others and spending money in the way they once did because of the continued health risks. As a result, governments across advanced economies have stepped in to offer wide-ranging support for businesses.

This report looks at the policies that have been adopted in nine advanced economies: Canada, France, Germany, Ireland, Japan, New Zealand, Norway, Singapore and Sweden. We also note how these policy interventions compare to the action taken in the UK. We focus on measures targeted at businesses, including tax cuts and tax deferrals, grants, loans on preferential terms and equity injections.

Figure 1 **Spending by subnational government (as % of total government spending), 2016**




Source: IfG calculations based on data from the OECD. * = Data for Singapore is not available.

The nine countries we look at have different forms of government, with different degrees of devolution of power. Germany and Canada both operate federal systems: their *Länder* (states), provinces and territories have large amounts of autonomy. As Figure 1 shows, around half of public spending is done by subnational government in Germany and nearly four fifths in Canada. The other seven countries are all unitary states. Japan and France have relatively powerful prefectures, city governments (Japan) and regions (France). These have elected assemblies and, in the case of Japan, directly elected governors. Norway and Sweden are also unitary states with some devolution. They are split into relatively small counties which benefit from a high level of fiscal devolution (particularly in Sweden, where the majority of government spending is done at subnational level). New Zealand, Ireland and Singapore by contrast have highly centralised governance and fiscal arrangements.

These differences in governance systems carried over to differences in the way policies to support business during the pandemic have been designed, funded and implemented. States, provinces and territories in Germany and Canada had large amounts of autonomy in designing and funding business support. In both Japan and France, regional governments and other regional institutions have played an important role in delivering and (to a lesser extent) designing and funding policies to support businesses. In Norway and Sweden, decision making on business support has been concentrated in central government, with limited use of subnational government to implement some policies, such as rent subsidies. In New Zealand, Ireland and Singapore, there has been some limited use of local government for implementation (such as in Ireland, where business grants are administered on a county level) but support has predominately been designed and implemented by central government.

As Table 1 shows, these countries have used a similar set of tools to support businesses through the crisis. We highlight common features of the response offered in each country and outline the role of central and subnational governments and public bodies in designing, funding and delivering support. We also highlight the importance of the policies and institutions that existed pre-crisis in shaping how different countries chose to respond. Where not explicitly stated, policies are designed, funded and implemented by central government.

One of the main policies that many governments have adopted to support the private sector is wage subsidies, like the Coronavirus Job Retention Scheme (CJRS, or 'furlough') in the UK. These schemes make up a large part of overall government support for the private sector in most of these countries – for example, in New Zealand, two thirds of employees made use of the wage subsidy scheme, with that programme making up NZ$14.8bn of the estimated NZ$62.1bn total cost of government support for the private sector.[1] We and others have analysed cross-country differences in those types of schemes in earlier work.[2] This report does not attempt to provide a description of those policies. We also do not describe general demand-stimulus measures that some countries have adopted (such as VAT cuts or time-limited vouchers),[3] and instead focus on the range of other policies that governments have used to support firms through this crisis.

# Why have governments supported businesses?

As we set out in our *Bailout for Business after Coronavirus* report,[4] government support for business during the current crisis has had broadly three phases: rescue, recovery and restructure.

The focus of policy in most advanced economies during the early weeks of the coronavirus crisis was to avoid businesses going under, rescuing them from an immediate, unavoidable collapse in revenues as many economies were shutdown. During that initial phase, most governments were primarily concerned with ensuring businesses received enough support quickly enough to stop solvent but illiquid businesses going under.[5] Governments feared that allowing businesses to go to the wall would cause lasting economic damage – depressing economic activity not just for the next year or so but for many years to come. This concern stems from a belief that existing businesses are, as it were, more than the sum of their parts: they contain vital firm-specific human and intangible capital that would be lost if companies failed and their employees were thrown back into the labour market, potentially for months or years.

Governments used a mix of fiscal policy measures – tax deferrals, tax cuts, direct grants to businesses and government-backed loans – to help address businesses' cashflow problems during the initial economic turmoil. These fiscal measures were complemented with other changes, such as relaxing insolvency laws or requiring landlords to grant tenants leniency.

In that early 'rescue' phase of the response, the imperative was to get money to businesses and households as quickly as possible. The usual pre-occupations of government economy departments – with efficiency, market incentives and the protection of the public purse – were relegated in importance.

Although governments have lifted some of the most stringent economic restrictions, businesses continue to be affected by the need for social distancing. Until an effective vaccine can be developed and rolled out, the way businesses operate and their costs of doing so will continue to be affected. The crisis may also have left businesses burdened with debt and may have permanently changed the way people behave and what they buy. Both could have lasting consequences for some types of businesses.

But as restrictions eased, the focus of economics and finance ministries shifted towards the appropriate design of policies to help the economy recover and restructure. Recovery entails getting existing businesses back up and running. Restructuring – if it is needed – requires acknowledging that the world will never again be exactly as it was at the start of 2020 and so some businesses have no long-term future, while others will need to change substantially how they operate. What constitutes good policy will be different during the recovery and restructuring phases than during the initial rescue phase.

Governments interested in helping businesses to recover from the crisis will continue to place weight on ensuring money gets to businesses that need it quickly. However, governments are likely to worry more than they did during the rescue phase about whether market mechanisms are being allowed to function. In normal times, weak businesses will fail, allowing stronger competitors to thrive and driving economic growth.

To enable and encourage restructuring, governments will need to be more hard-nosed – cutting off subsidies for businesses with no long-term future or targeting government support directly at the adjustments that businesses need to make to operate effectively post-Covid. Retaining extensive government support for businesses that otherwise have no long-term future risks wasting taxpayer money and slowing down the transition to a new economic structure, bringing with it new ways of working – and new jobs.

In practice, governments cannot perfectly tailor recovery and restructuring support. They must instead decide which risks they are more concerned about. Some will err on the side of caution, offering too much support rather than risk viable businesses going under for want of help. Others will prefer to safeguard public revenues and trust in the operation of market mechanisms, even if that increases the risk that some viable businesses may go to the wall, with the loss of some jobs.

The fact that different governments place different weights on these risks – combined with coronavirus affecting different economies differently – helps to explain the difference in the policies that have been used to help businesses.

# What approaches have been taken to support businesses?

The countries included in this study have used broadly similar tools to help businesses through this crisis – as Table 1 illustrates – although with differences in emphasis.

These policies have formed part of the wider package of measures that these nine governments have adopted to support their economies through the crisis (including through extra public spending on healthcare and wage subsidies). As Figure 2 shows, the scale of support deployed in the different countries varies significantly. The figure shows what proportion of GDP each country has devoted to direct fiscal support for households, businesses and public services (purple bars), along with the scale of tax deferrals offered (pink bars), and the projected loss of GDP in 2020 (blue bars).

Those who have spent most money are not necessarily the countries worst affected by the crisis, at least economically. Of particular interest are Japan and Singapore, who have both spent relatively large amounts despite having the lowest projected GDP hit from the crisis,* while Norway and Ireland amongst others have been much more cautious.

Figure 2 shows that some countries (like New Zealand, Ireland, Japan and Singapore) have relied most heavily on direct fiscal support – tax cuts and income transfers – for businesses and households and made less use of tax deferrals. Others (like France and Sweden) have done the reverse, relying more heavily on tax deferrals to ease cashflow constraints.

Figure 2 **Loss of output and the cost of government support for businesses and households during the coronavirus crisis (% of GDP)**


Source: Figures for projected GDP losses in 2020 are from the International Monetary Fund (IMF). Figures for the cost of government measures are Institute for Government calculations based on figures published by the IMF, OECD and Bruegel. Figures for tax deferrals in Singapore and Norway are not available; the cost of tax deferrals for Norway is included in the estimated cost of direct aid.

* The Ministry of Trade and Industry (MTI) in Singapore has forecast a larger reduction in GDP this year than projected by the IMF in June 2020. MTI forecasts published in August suggest that GDP in Singapore will decline by between 5% and 7% this year. www.mti.gov.sg/Newsroom/Press-Releases/2020/08/MTI-Narrows-2020-GDP-Growth-Forecast

In addition to the measures summarised in Figure 2, all nine countries have also provided additional support to businesses through guaranteeing or directly providing loans. Germany has made the largest amount of money available – setting up facilities that the OECD estimates could provide over 30% of GDP in loan guarantees. Japan and the UK have also made substantial provision for this sort of support (22.7% and 15.4% of GDP respectively) – although not all of the available funds have been drawn. The other countries have provided less support through these sort of government loans and loan guarantees, providing between 2.1% (Ireland and New Zealand) and 6% (France) of GDP.*

## Business grants

Governments have given direct grants to businesses to tide them over through the worst of the crisis and – in some cases – to help them restructure. Grants have been used to help firms meet unavoidable fixed costs or to encourage and enable them to adapt their processes to operate more effectively while the coronavirus continues to affect daily operations.

In Canada, Germany, Japan, Norway, Singapore and Sweden, specific grants were used to help businesses meet unavoidable fixed costs – particularly rent – during the peak of the crisis. For example, the Norwegian government offered grants to cover a proportion of all fixed costs for firms between March and August. The value of the grant was linked to firms' loss of turnover during this period. Canada offered grants equivalent to up to 50% of rent, while Japan and Sweden also had schemes to subsidise rent for firms affected worst by the crisis. The grants in Sweden that compensated landlords who reduced commercial tenants' rent were administered on a county level.

Other schemes have been less targeted, with the value of grants not tied to any specific fixed costs. These sorts of general grants tend to have been used to help SMEs. For example, in France small firms, with an annual turnover below €1 million (£920,000), and self-employed people were eligible for central government grants of up to €1,500 (£1,400) a month if they could show they had lost half their revenue or were at risk of bankruptcy. That scheme has been extended until the end of the year for the hotel, tourism and events sectors, and expanded to cover businesses in those sectors with annual turnover between €1m and €2m (£0.9m–£1.8m). France's regional governments also handed out one-off grants of up to €10,000 (£9,200) to each of the worst affected businesses in the hardest hit sectors.

In Ireland, businesses with fewer than 250 employees were eligible for grants of up to €25,000 (£23,000) from county councils if their revenues had dropped by more than 25%.** The Canada Emergency Business Account (CEBA) scheme offers loans of CA$40,000 (£24,000) to Canadian SMEs, with a quarter of the loan being forgiven if paid back in full by the end of 2022 – essentially making it a CA$10,000 (£5,900) grant. Meanwhile, the Japanese government offers a ¥2m (£15,000) grant to SMEs whose revenue falls by more than half in any month in 2020.

* These figures are Institute for Government calculations based on figures compiled by the IMF, OECD and Bruegel.

** Firms could receive grants worth up to the value of their 2019 rates payment. Rates are the annual tax on the value of business premises.

These more general grants are similar to the approach taken by the UK government (for businesses in England) and the Scottish and Welsh governments, providing grants to business rates payers. For example, the Scottish government has granted £10,000 each to recipients of Rural Relief and other relief schemes, and £25,000 each to retail, hospitality and leisure businesses occupying property with a rateable value between £18,000 and £51,000.

Some governments have also used grants to encourage and enable businesses to adapt to new, Covid-safe ways of working. The Singaporean government has offered grants to cover up to 80% of the cost of projects to make workplaces socially distanced and to shift to e-commerce platforms[*] and also introduced a Construction Restart Booster to help construction firms meet additional compliance costs. The Quebec government has a scheme in place that pays the costs of training, including the wages of workers engaged in training, for underutilised employees during the crisis. The Japanese and French governments have also offered subsidies to companies adopting new IT solutions, while in Germany, Ireland and New Zealand small grants have been made available for businesses to hire consultants to manage business change. In Japan, grants have also been offered to help companies diversify their supply chains, particularly encouraging the building of facilities within Japan to create more resilient supply chains in case of another crisis.

## Tax cuts and deferrals

Almost every country in this study has cancelled some tax payments to alleviate businesses' cashflow problems in 2020. In general, these policies cover social security contributions (in order to incentivise firms to retain workers), taxes on business property (to help businesses facing fixed rent costs) and loss carry-back arrangements for taxes on business profits (allowing firms to receive a rebate on the previous year's tax payment, helping this year's cashflow). The UK government (acting for England) and the devolved administrations also took this approach – for example, offering business rates holidays. In addition, some countries have allowed firms to defer or reduce other tax payments – including tax on their profits and consumption taxes (such as VAT and duties).[**]

Firms have been allowed to defer tax payments by anything from three months (in the case of social security contributions in France and Germany, and tax on business profits in Singapore) to up to a year (in the case of all taxes owed by businesses in Japan and the VAT and social security contributions owed by some of the worst-affected firms in Sweden). The UK government has taken a similar approach – allowing businesses to defer any VAT payments due between 30 March and 30 June 2020 to the 2021/22. In Norway, Singapore and Sweden (as in the UK), all businesses are automatically eligible for deferred payment of some taxes; this is also true for

[*] The Singapore government covers up to 90% of these costs for the hardest-hit firms and any businesses that successfully shift to new digital ways of working can apply for bonus payments of up to S$10,000 (£5,700).

[**] A survey by the OECD suggests that overall three-quarters of OECD member countries have introduced measures to give businesses or individuals more time to pay their taxes and more than a third have changed practices for pursuing tax debts. OECD, 'Tax and fiscal policy in response to the Coronavirus crisis: Strengthening confidence and resilience', OECD, 19 May 2020 retrieved 23 September 2020, www.oecd.org/coronavirus/policy-responses/tax-and-fiscal-policy-in-response-to-the-coronavirus-crisis-strengthening-confidence-and-resilience-60f640a8/

corporation tax owed by businesses in Canada to provincial governments. In the other countries, firms must apply for permission to defer their tax payments – and in Germany and Japan must (respectively) have been directly and significantly impacted by coronavirus or have lost at least a fifth of revenue.

Apart from Canada, all the countries we look at have offered some form of tax cuts to some businesses. Several countries have offered firms reductions in social security contributions – either to all firms or else tied to use of government wage subsidy schemes. For example, in Norway social security contributions were cut from 14.1% of earnings to 10.1% for all firms; in Sweden, businesses have been exempted from paying social security contributions for the first 30 workers on salaries up to SEK25,000 (£2,200). The national governments of Ireland and Singapore and local governments in Japan have all offered reductions in business property taxes, with these being focused on the firms most adversely affected by coronavirus. The Irish government has let businesses off paying business rates between March and September if they were forced to close or suffered severe disruption. Japanese local governments have cut property taxes for SMEs. In Singapore, taxes on non-residential property have been cut by 30% in 2020, and by 100% for those businesses most badly affected by Covid-19 – like hotels, serviced apartments, tourist attractions, shops and restaurants.

In Norway, Ireland, New Zealand, Germany, Sweden and Japan businesses have also been allowed to carry back their losses from 2020 into previous tax years (within certain limits), thus earning a rebate on taxes paid on previous years' profits. The OECD suggests this as a useful option for increasing liquidity and focusing government support on previously profitable but now loss-making businesses; it has the additional advantage of being possible to implement using the existing tax system.[6]

However, if these rebates are only received at the end of this financial year, it will do little to help firms with immediate cashflow concerns. To counteract this problem, the German government has provided an initial loss carry-back grant to businesses that are expecting to make major losses in 2020. The Japanese government has also sought to improve targeting of their scheme by limiting eligibility only to companies with less than ¥1bn (£7.5m) in cash reserves – this restriction should reduce the deadweight cost of the policy, by excluding firms that already have sufficiently large cash reserves to tide them over.

## Government-guaranteed loans

All the countries included in this study have put in place measures to increase firms' access to credit. But the exact mechanism used varies significantly between countries, with this variation being driven by differences in the structure of their banking sectors and existing state institutions.

All the countries we examine have made loans more easily available to small businesses. All apart from Singapore have also introduced or expanded schemes for larger companies to access government-backed loans. The loans that have been made available for larger companies typically offer higher borrowing limits but less generous terms than those available to SMEs.

The loan schemes on offer in different countries vary in four ways. First, they differ in terms of how much money firms can borrow. Second, they differ in how extensive the government guarantees are – ranging from guaranteeing 70% to 100% of the loan amount. Third, the institutions that administer them differ – with some being issued through private banks while others are issued by a state-owned bank. Fourth, while in most of the countries all the government-backed loan schemes are designed and funded by central government, in France, Japan and Germany there are also locally designed and funded schemes.

All these governments have created or extended programmes to provide government guarantees to lending by private financial institutions. These guarantees have been provided, either directly through government departments (Norway, New Zealand, Ireland, Singapore), government agencies (Canada, Sweden) or state-owned banks (Japan, Germany, France, Ireland). If a business is unable to repay one of these loans, the government will cover between 70% and 100% of the loan amount. The UK government followed a similar approach – providing businesses with access to three different loan schemes, which were administered by private banks and offered government guarantees of 80% (Coronavirus Business Interruption Loan Scheme and the Coronavirus Large Business Interruption Loan Scheme) or 100% (Bounce Back loan scheme).

Offering government guarantees to private bank loans has several attractive features. Limiting the losses banks face encourages them to lend more than they might otherwise. By channelling the money through private banks, governments were also able to use banks' extensive customer networks to ensure credit was distributed quickly and ensured the administration of the loans and assessment of firms' creditworthiness remained the responsibility of the banks. These are tasks that banks do better than government agencies that do not ordinarily carry out these tasks.

However, there are trade-offs in the design of these schemes. If the government guarantees a lower fraction of the loan, banks will be more concerned about firms' creditworthiness and are likely to take longer to extend loans and make fewer of them. If, on the other hand, the government guarantees the full loan, banks have less incentive to check the creditworthiness of firms – risking that more loans go bad – but may, as a result, be able to process loans more quickly.

An alternative way of leveraging private lenders' knowledge and insight into firms' creditworthiness is to make use of co-lending schemes, as the Canadian government has. Business Development Canada, the state-owned development bank, 'co-lends' with private financial institutions, providing up to 50% of the capital for loans to firms of up to CA$60m (£35m). Japan and Germany also offer similar schemes.

In Japan, France (on a regional level) and Ireland, state-owned development banks have also lent directly to businesses: Japan Finance Corporation (JFC), the Banque Publique d'Investissement (Bpifrance) and the Strategic Banking Corporation of Ireland (SBCI), respectively. The New Zealand government has a small-scale scheme providing direct loans of up to NZ$100,000 to businesses through its tax office, and Business Development Canada and Microfinance Ireland offer similar direct lending schemes.

Some governments also have funds aimed at helping strategic companies through the purchase of bonds, subordinated debts or hybrid equity-like instruments. Ireland, through the Ireland Strategic Investment Fund (ISIF), Sweden and New Zealand have some provision for support of this sort which is offered on an ad hoc basis. Germany's Economic Stabilisation Fund (ESF) has access to a €100bn (£92bn) recapitalisation fund for large businesses, which may be used to purchase subordinated debts and equity-like hybrid bonds, as well as a €400bn (£370m) fund for guaranteeing new debts and liabilities, which is intended to help companies refinance themselves through private banking and capital markets.

## Taking equity stakes

Some governments have decided to take equity stakes – that is, shares or part-ownership – in some businesses. This approach has primarily been used to help two types of business: start-ups (which, with no track record, may find it hard to attract private investment) and strategically important large firms that are at risk of bankruptcy or major restructuring, particularly airlines.

The governments of Ireland, Canada and Germany have all created or extended programmes that have resulted (or could result) in the government owning a stake in several strategically important private businesses. The governments of Sweden, Singapore and New Zealand have taken stakes (or embarked on other interventions that could leave them with equity stakes) in their national airlines, generally on a one-off basis.

The Ireland Strategic Investment Fund, a pre-pandemic state fund, offers a mixture of support to businesses that are important to the national or local economy. It is able to buy equity or offer loans through its new €2bn (£1.8bn) Pandemic Stabilisation and Recovery Fund, although it has not yet been used. Canada's Large Employer Emergency Financing Facility (LEEFF) – set up in response to coronavirus – includes an obligation for recipient companies to give the government the option of purchasing shares worth 15% of the loan amount. This scheme is available to large companies with a significant workforce in Canada, although no business has yet made use of it. Germany's Economic Stabilisation Fund now offers up to €100bn (£92bn) of mixed investment in struggling companies, specifically those that cannot access private finance, are important to the German economy or labour market or are strategically significant and risk being sold to foreign buyers. This fund has been used to help the national carrier airline, Lufthansa – with the €9bn (£8.2bn) government bailout accompanied by various conditions, such as the requirement to appoint two government representatives to the supervisory board.

In Sweden, equity support has been provided to Scandinavian Airlines (SAS), in tandem with the Danish and Norwegian governments. Singapore's sovereign wealth fund (Temasek) has supported Singapore Airlines by offering to purchase any shares or convertible loans issued by the airline, up to a limit of S$15bn (£8.6bn). New Zealand's government has given a NZ$900m convertible loan to Air New Zealand, giving the government the option to exchange the loan for shares in the company. New Zealand's Treasury is also considering providing support to other large businesses on a case-by-case basis.

The UK government has taken a similar approach on equity stakes, promising bespoke Treasury support for struggling and strategically important companies through its so-called 'Project Birch'. Celsa Steel UK is the only company to have benefitted from the programme thus far, receiving a £30m loan from the Treasury, part of which could be converted into equity. Other companies have reportedly been in talks with the Treasury, but no further support has been announced.

The only country to offer equity-like support to established SMEs is France, which created two schemes to increase SME access to equity funding in its 'Relaunch' budget in September 2020 to be available from the end of the year. The first involves guarantees from the state-owned bank, Bpifrance, investments on regional SME equity funds, particularly those with potential to contribute to a green economic recovery. The second is a scheme for SMEs unable to access equity funding to receive 'participatory' subordinated loans co-funded by their banks, to improve their balance sheets, which can be converted into equity or quasi-equity in future. The costs of these schemes are expected to be relatively small, at around €3bn (£2.8bn).

In general, governments have taken fewer equity stakes in major companies so far during this crisis than in the wake of the global financial crisis. Many countries have instead pursued other means of support for large firms, such as loan guarantees. France has supported Air France, Renault and FNAC-Darty through direct loans from the state rather than with equity stakes. The Norwegian government has also provided support for Scandinavian Airlines through loans, rather than taking an equity stake.

In some cases, this greater reliance on loans than equity injections is consistent with government policy before the pandemic: for example, the Norwegian government had divested itself of the state's previous stake in Scandinavian Airlines in 2018. But the greater reliance on loans rather than equity in this crisis is also partly because this crisis has hit smaller companies hardest, rather than larger individual firms that are better suited to direct government investment.

It may also reflect the fact that governments hope companies face less fundamental solvency issues than the banks that were part-nationalised in 2008 did and thus can return to profitability more quickly, meaning they can rely on loan rather than equity financing. It also reflects the chastening experiences some countries have had with companies bailed out in 2008 and 2009, which have often been difficult to return to private hands without incurring substantial losses (such as in the case of Commerzbank, in which the German government continues to hold a significant stake that is currently valued well below what the state paid for it in 2008).[7] The resilience of larger firms through this crisis has been helped by firms' ready access to cheap private sector credit.[8]

France and Singapore have introduced new schemes to invest specifically in early-stage businesses by taking equity stakes in partnership with private investors. Stakes are taken in high-potential firms and held by Bpifrance and Singapore's state investment agency, respectively. This specific support is partly to encourage innovation and help strategic sectors – for example, Singapore's fund has a higher cap in support to artificial intelligence companies – but also to preserve potentially profitable companies unable to access loan support due to a lack of historic profits and turnover. These schemes have similar objectives to the UK government's Future Fund, which offers government investment to start-ups and innovative firms to match funds they can attract from private investors. To justify such schemes as a good use of taxpayer money, governments must believe that crisis has led to private investors investing too little in these firms, despite their good (if high risk) prospects.

## Other policies

Countries have also taken a variety of other measures – including non-fiscal measures – to help firms. Some have targeted extra support at specific, strategic sectors. Nearly all have given specific help to exporting firms, who have been hit particularly hard by trade disruption. Some have also made legal changes to bankruptcy or tenancy dispute legislation. Others have introduced programmes to offer advice or online tools to help small businesses cope with the crisis.

Airlines have benefitted from targeted support: Canada has waived airport rents owed to the federal government; New Zealand and Norway waived air travel taxes; and Singapore offered direct subsidies to keep flights running. Elsewhere, countries have special, generous loan funds for locally important sectors: for instance, agriculture in Canada, manufacturing and international services in Ireland, and the oil and gas industry in Norway.

Most of the countries included in this study provided special support to exporters. France, Germany, Norway, Sweden, Japan and Singapore, along with the UK, made attempts to increase the availability of export credit insurance to guarantee exporting companies would receive payment. This has been provided either through government guarantees or through the government offering to pay part of companies' insurance premiums. Singapore and Japan expanded loan schemes for exporting companies, and New Zealand provided subsidies to keep air freight channels running.

Many countries deployed changes to the law or to legal processes to help avoid unnecessary bankruptcies or evictions among previously stable firms. The governments of Germany and France adjusted bankruptcy law to temporarily suspend the obligation to file for bankruptcy when a company is failing. New Zealand created a scheme to allow certain debts to be put into hibernation so they could not be pursued by creditors during the crisis, while the Norwegian government has created a new law to achieve more effective debt negotiations and company restructuring, modelled on the US's 'Chapter 11' bankruptcy proceedings. France has created a scheme to offer mediation in conflicts between SMEs and creditors, while New Zealand has introduced compulsory arbitration between landlords and SME tenants to settle rent disputes. Some of the legal changes made – such as those in Norway – are due to remain in place for at least a year because companies are at the highest risk of bankruptcy towards the end of a crisis. Legal reforms made in Norway apply until the start of 2022.

Finally, many countries have offered access to advisors or online tools to companies (especially SMEs) to help them navigate the crisis. For example, the Singaporean government and the Tokyo Metropolitan Government offer companies free consultations with business advisors, while the Irish government has expanded its free online training for entrepreneurs, run by local enterprise offices. In New Zealand, SMEs can access online cashflow forecasting tools for free. Schemes like these offer a relatively cheap and simple option to help businesses plan and adapt during the crisis.

## What strings have been attached to government support?

To help focus taxpayer support on those firms that are most in need, some governments have attached conditions to some of their business support programmes. Conditionality has also been used in some cases to help governments pursue other objectives, such as reducing greenhouse gas emissions.

Some or all of the government loan schemes in Canada, France, Germany and Sweden (as in the UK) include limits on increases in executive pay and the issuing of dividends and share buybacks. This is in order to prevent loan support being channelled to shareholders or senior staff.

Canada's large business loan scheme (LEEFF) includes an obligation for firms to publish annual assessments of their climate impact while in receipt of the loan, and to continue to meet existing pay and pension obligations. Scandinavian Airlines, following its bailout by the Swedish government, must show its business plan is in line with Sweden's ambition to keep global warming below 1.5 degrees Celsius, and Air France gave similar reassurances to the French government following its receipt of loan support. The UK has also reportedly asked applicants to its 'Project Birch' to meet decarbonisation targets.[9]

Other countries have added conditions around job creation or preservation. In Germany, the importance of a company in providing employment in the local area is a contributory factor in determining their eligibility for equity or other support through the ESF. In Ireland, recipients of the government's Restart Grants (announced in June) must commit to reopening their companies and maintaining staffing levels. Applicants for Enterprise Development grants in Singapore must also prove that grants will result in wage increases, job creation or training, although this was a condition first announced in February 2019. Unionised companies in Singapore also receive an extra 10% government funding for projects.

There are two potential problems with this sort of conditionality. The first, particularly when applying to smaller companies, is enforcement. For example, the employment provisions in Ireland's Restart Grant programme are only to be enforced by spot-checks, leaving the system open to abuse. The second is that conditionality may reduce take-up of schemes, if companies are unwilling to change their practices to accommodate them – as seems to have happened in Canada, where the LEEFF scheme has had little take-up.

Centre-right and right-leaning parties in the Norwegian parliament voted down a proposal to attach restrictions on dividend payments and curbs on redundancies to government loans there. However, the parliament has issued a strong appeal to companies who receive government money to show moderation when making decisions on dividends, calling it a contract with society.

As well as concrete conditions attached to some support programmes, there are other areas where bespoke conditions have been applied to individual decisions. Most programmes for large-scale loan and equity support require sign-off from ministers. For instance, in France loans to companies with an annual turnover above €1.5bn (£1.4bn) must be reviewed by the French Treasury and granted by a specific decision of the Ministry of Economy and Finance. In Germany, decisions on loans and equity investments over €500m (£460m) are managed by a joint committee including ministers from the economic and business departments. Elsewhere (in Sweden, for instance) any government equity bailout requires ministerial approval. This provides a further layer of conditionality, as ministers will consider the wider political ramifications of decisions to help companies, including a company's reputation for the quality of their management, employee practices or tax arrangements.

# What role have subnational governments and public bodies played?

Support for businesses has primarily been provided at a national level. But all countries apart from New Zealand and Singapore (two of the smallest and most centralised covered) have also provided significant business support at a local level. This has either been done through subnational tiers of government delivering schemes that are designed and funded centrally or through programmes designed (and sometimes funded) by local institutions themselves. The support provided at this level can be very significant: for example, according to the IMF, the German ***Länder*** (states) and municipalities have rolled out €141bn (£130bn) in direct support for businesses and €63bn (£58bn) in loan guarantees, on top of the €286bn (£260bn) of direct support and €757bn (£700bn) of loan guarantees from the federal government.[10]

## Implementing national schemes

Subnational governments have played a role in allocating or distributing resources for many of the schemes discussed in previous sections. For example, the grant schemes in France (for the one-off grants), Germany and Ireland are administered by local authorities, as are many of the property tax exemptions. Sweden's rent subsidy scheme is also run at a county level. Using local authorities to distribute central government funds in this way can have the advantage of making use of local knowledge about which firms are viable or important for the local economy, while relying on central government's superior revenue-raising and borrowing capabilities to fund the programmes.

## Designing locally tailored schemes

In Japan, Germany, France and Canada, subnational governments have also designed some of their own grants to support businesses through the Covid crisis, often targeted at locally important sectors or businesses or in response to local lockdowns. For instance, in Japan city governments have set up their own rent subsidy schemes, targeting different sectors and types of businesses based on the specific state of the local economy. The Tokyo Metropolitan Government granted ¥500,000 (£3,700) to each firm that closed to comply with requests by the governor. Germany's states have provided their own grant support to firms – for instance, Baden-Württemberg provides grants from its 'hardship fund' of up to €30,000 (£28,000) to companies in difficulty. The Canadian federal government has allocated an extra CA$1bn (£590m) to its regional development agencies (which are responsible for producing local industrial strategies and diversifying local economies) to provide grant funding to businesses that the development agencies deem to be crucial to the local economy.

In Canada, Germany and France, local institutions also provide their own loan or loan guarantee schemes, to complement national schemes. The Quebecois government offers guarantees on loans of a minimum CA$50,000 (£29,000) to businesses experiencing cashflow problems, while New Brunswick offers up to CA$100,000 (£59,000) in direct government loans to SMEs.

In France, some regional authorities provide zero-interest loans to struggling firms (more generous than national government loans, which charge interest), through local Bpifrance schemes. In Île-de-France, for example, interest-free loans of up to €300,000 (£280,000) are available.

In Japan and Germany, local credit guarantee banks are used to provide finance. Each of Germany's states has its own guarantee bank, which issues guarantees on loans to increase the liquidity available to local businesses. These banks have been permitted by the federal government to take more risks than they were pre-crisis, with their exposure limit raised from 35% to 50% of operating resources and offering guarantees up to a higher limit than previously permitted. Bavaria even has its own version of the ESF, BayernFonds, which has a €20bn (£18bn) budget for recapitalising and investing in strategically important Bavarian businesses unable to access other forms of credit. Unlike the ESF, this fund can invest in SMEs as well as larger companies.

## Funding subnational business support programmes

In general, the funding for these locally implemented business support schemes has come from central government. This has either come through funding tied to a specific scheme (for instance, business grants in France or Ireland) or through additional general funding provided to local authorities to allow them to provide the more bespoke business support described above (as well as to continue their other functions). Central governments have taken two approaches to providing more general funding of this sort. In some cases, central government has provided support to local governments to specifically make up for shortfalls in existing funding channels – for instance in Germany, where the federal government has promised to cover 50% of the income shortfall states will suffer from reduction in trade taxes. Other countries have simply allocated additional resources to local government, as in France, where the regions have received around €4.5bn (£4.1bn) in extra funding, or Japan, where local governors have received ¥3trn (£22bn) in support so far.[11]

However, some of the local business support schemes have been funded by local institutions. For example, Bavaria's version of the ESF (BayernFonds) is funded by the Bavarian government. Compared to subnational governments in the UK, some regions in other countries have more extensive borrowing and revenue-raising powers, allowing greater flexibility in funding their own programmes during the crisis. For example, German states and Canadian provinces are able to use debt financing to cover their immediate needs, while Japanese and Canadian local authorities can rely on a much wider and more diversified local tax base than in the UK.[12] However, a proliferation of regionally funded programmes can result in regional disparities in terms of how well businesses are being supported through the crisis, with wealthier regions potentially able to fund more generous support. This is a concern in France, where local grants and Bpifrance loan guarantee schemes are partially funded by the regions, meaning much more aid is available to businesses in (for example) the Ile-de-France region than in poorer regions.[13] This sort of regional inequity was a particular concern in Canada, where some provinces are in a weak budgetary position and so had less room to provide business support; it was this situation which partially prompted the federal government to take the lead in helping businesses.

## Advising central government

Regardless of funding, local institutions have also been harnessed to advise governments on how to respond to Covid. In France, for example, national and regional authorities have been managing the crisis and targeting support in tandem through the Economic Council 'Etats-Regions'. This has included the creation of local taskforces, including representatives from Bpifrance, to make sure loans and guarantees are targeted correctly for the local economy. Similarly, the German federal government has licensed local guarantee banks to make decisions on loans of up to €250,000 (£230,000) without consultation with federal authorities, allowing speedier, more responsive decision-making. The OECD concluded in a recent report that local decision-makers are probably best positioned to act as brokers providing help to SMEs and should receive funding help from central government and be included in new committees to co-ordinate help at different levels.[14]

## The role of subnational government in the UK

In the UK, as in the other countries covered in this report, most of the schemes to support businesses through the Covid crisis have been designed and funded by central government, though there has been a role for local bodies in implementing some of the policies. In addition, the devolved administrations have responsibility for some aspects of support for small businesses. The role of central and subnational governments in the UK has largely been determined by the pre-existing devolution settlement, under which responsibility for many areas of spending is devolved to the Scottish and Welsh governments and to the Northern Ireland executive, as are a minority of tax-raising powers, including local taxes.

The new business loan programmes have been designed and funded by central government and rolled out UK-wide, making use of private banks to issue the loans. UK government ministers have also been responsible for making decisions about whether and how to offer large-scale loans to (or take equity stakes in) major businesses that are deemed to be strategically important. The opportunity to defer payments of VAT was also offered by central government to businesses across the UK.

The main aspects of business support that have been designed and funded at a subnational level in the UK are cuts in taxes related to business property and grants to businesses. Decisions on these policies have been made by the UK government for England. These decisions had implications for the budgets allocated to Scotland, Wales and Northern Ireland but those devolved administrations were free to spend any additional budget as they chose. In theory, this money could be used for any devolved function, but most has been allocated to responding to Covid-19. The governments of Scotland[15], Wales[16] and Northern Ireland[17] all announced their own schemes for supporting small businesses affected by the pandemic and followed England in extending business rates relief to all leisure, retail and hospitality businesses.

The Scottish government has also created two additional small-scale business support schemes, aimed at creative, tourism and hospitality businesses and vulnerable, strategically important SMEs. These have granted a combined £140m (as of early August) to businesses in need and unable to access business rates relief, with applications managed by local and national enterprise agencies along with Creative Scotland and VisitScotland.[18]

# Why have countries taken different approaches?

Countries have used broadly similar tools to provide business support in this crisis, but with some differences in emphasis, timing, targeting and delivery mechanisms. In particular, some countries have provided more support through grants, rather than loans: for instance, in Ireland, the amount budgeted for 'restart' grants is around a fifth of the budget for loans , while in France this ratio is more like 1:40. Similarly, there is a large amount of variation in generosity between different countries providing tax deferrals. Germany's tax deferrals total around €246bn (£230bn) according to Bruegel's analysis (or around 7.3% of GDP); in Japan, this total is ¥26trn (£194bn, or around 4.8% GDP), and in France it is just €22.5bn (£21bn, 1% of GDP).

These variations will make a difference to how businesses are able to operate, with German companies – for example – spared greater costs in the short run, helping to improve their cashflow. The level of support provided to different types of businesses also reflects the priorities of governments: for instance, the government in export-reliant Singapore provided more support to exporting companies than elsewhere, while countries like Ireland and New Zealand have chosen to focus support on SMEs.

### Existing policies and institutions helped shape the response

Given the speed with which the Covid crisis materialised, the different approaches taken – particularly in terms of how loans have been provided and whether and how equity stakes have been taken in companies – reflect the different institutions and programmes already in place at the start of this crisis. The German government's Economic Stabilisation Fund built on legislation that had been passed in 2008 to assist in bailing out the financial sector after the global financial crisis. Countries such as Japan, France and Ireland, with state-owned banks, have been able to use them to lend directly to businesses, rather than (or in addition to) guaranteeing private bank loans. France, Singapore and Germany also built on pre-existing loan guarantee schemes to channel credit to businesses, as did Japan in the case of SME loans. Countries with state investment agencies (Ireland and Singapore) have used these to take and manage equity stakes. These institutions provide expertise and experience managing investments and judging the eligibility of companies which can be valuable in helping governments accurately target support.

Similarly, most countries provided help to exporting companies through their state export credit agency. Ireland – where no such agency exists – is an exception, providing no specific support to companies to assist them with exporting.

In Singapore, schemes already existed pre-Covid for the state to part-fund structural changes to businesses and these schemes were simply expanded to offer more generous help to firms, including to assist them in changing their working practices to cope with the Covid restrictions.

However, this crisis has also shown that – where necessary – new schemes and institutions can be set up at short notice. Although ESF in Germany was established using 2008 legislation, ESF is a new organisation, with a different scope to the SoFFin investment agency created in 2008. (SoFFin was limited to investing in financial services companies.) Other countries have also repurposed their institutions to serve new functions in this crisis: for example, New Zealand used its tax office and Canada its export credit agency to administer SME loan schemes.

## Governments have weighed the risks differently

Another factor shaping the nature of different countries' responses appears to be how different governments weigh the competing risks that we outlined earlier, which in turn depends on the wider objectives of each government. There is the risk that taxpayer money is wasted by programmes which distribute money quickly and widely but are poorly targeted and have significant deadweight. Early in the crisis, this had to be weighed against the risk of imposing too many conditions, in the hope of targeting money more effectively but risking viable businesses going under and the country suffering greater long-term economic harm from Covid than was needed. As the crisis wears on, there is a risk that taxpayer money may be wasted keeping businesses afloat that have no long-term future, hindering economic restructuring and weighing on growth for many years.

Governments placing greater weight on avoiding business failure are more likely to offer 100% guaranteed loans (to ensure liquidity supply), compensate businesses for lost income or reform bankruptcy or restructuring laws. Germany (which has done all three) and Norway (new debt negotiation law, loss compensation and 90% loans) seem to lean towards preservation. Other countries, such as Singapore, have focused grant support on helping companies adapt or change practices, suggesting a greater focus on restructuring rather than preservation. The New Zealand government's well-being approach means that they have prioritised policies that contribute to supporting vulnerable populations and limiting the expected rise in unemployment. These differences in approach are likely to reflect a combination of ideological differences between different governments and differences in how the Covid crisis is likely to affect different economies in the longer term.

# Have the policies been effective?

In many ways, it is too early to evaluate the impact of these schemes. The ultimate objective of governments' support for business is to help the economy weather the coronavirus storm and emerge on the other side as strong as possible, without wasting taxpayer money. But with the threat of Covid-19 still present, it is too early to know what the long-term economic impacts of the pandemic will be and whether different countries' business support programmes have ultimately been successful. The true test of the effectiveness of these policies will be well into the recovery phase, or even beyond, when it becomes clearer how much of a long-term effect this crisis has had on business solvency, dynamism and employment. However, there are some ways we can assess the short-term impact of the policies discussed in this paper. We describe and assess four measures here.

## How widely were schemes used?

One measure of effectiveness is how quickly schemes have been able to get money or support to businesses – since loan or equity schemes cannot help with cashflow problems if they are not used. We should, however, be cautious in interpreting this measure because very high rates of take-up could also indicate a problem: for example, in cases where the government has guaranteed 100% of the loan, very high take-up could indicate that there has been a lack of due diligence in assessing borrowers. In the UK, for example, the Office for Budget Responsibility (OBR) estimates that the government is likely to make very large losses (of £16.0bn) on the £30.9bn of Bounce Back loans given to SMEs, which have a 100% government guarantee.[19]

Some countries' schemes have resulted in many more loans than others. French public bodies have guaranteed the largest value of loans to businesses (where statistics are publicly available), totalling €116bn (£110bn) by 31 July, or 4.9% of GDP.[20] Germany's KfW (Kreditanstalt für Wiederaufbau) loans programmes had guaranteed €42.6bn (£39bn, or 1.3% of GDP) of loans by 11 August; Canada's CEBA programme had also distributed 1.3% of GDP or CA$29bn (£17bn) of loans by 27 August.[21] Less money has been distributed in New Zealand and Sweden: New Zealand's small business loan schemes had seen less than NZ$1.7bn (0.6% of GDP) of applications by 1 July, while Sweden's government had guaranteed just SEK2.2bn (£190m) (0.05% of GDP) by 18 September 2020.[22]

The design of the loan schemes is strongly correlated with take-up – with both Sweden's and New Zealand's loan schemes having less favourable terms than those on offer in other countries. The percentage of the loan guaranteed by the government in Sweden is relatively low, 70%, the lowest of all the SME schemes included in this study. New Zealand similarly offered a relatively low 80% guarantee on its Business Finance Guarantee scheme, capped at NZ$500,000. This cap was increased to NZ$5m in August in response to low demand, but still just 827 companies had used the scheme as of 15 September.[23] In Canada, where CEBA has an even lower maximum loan, take-up has nonetheless been high as the loan terms are more attractive (including a quarter of the loan being converted to a grant if the business repays on time). In the UK, the value of loans extended through the Bounce Back loan scheme has been more than twice as large as those through the Coronavirus Business Interruption Loan scheme, largely because the former provides a higher government guarantee (100%, rather than 80%) and a lighter-touch application process.[24]

Thus far very little use has been made of some of the equity investment schemes that are notionally available: neither Canada's LEEFF or Ireland's Pandemic Stabilisation and Recovery Fund have been used by any companies so far in the crisis. As the OECD has outlined, injections of state equity into businesses should only be considered under very specific circumstances – for companies that have become insolvent as a direct result of the crisis, are too important to be allowed to fail, and where private investors are unwilling to step in.[25] The low take-up of these programmes is, therefore, likely to reflect the success of these schemes rather than their failure – particularly as, so far, no major, strategically important firms have failed in either country.

## Have governments followed best practice in taking equity stakes?

One way to judge the effectiveness of governments' equity injection programmes is by using the recommendations made by the OECD for how governments should approach such interventions to ensure that public money is targeted as effectively as possible.[26] The OECD recommends that governments should have clear, transparent criteria determining which companies receive investment, and that they put in place a regular review of investments to ensure reprivatisation occurs as soon as the investment no longer serves the public interest. They also suggest that equity investments in struggling firms should be combined with bankruptcy proceedings so that existing owners and creditors take some of the hit – ensuring government investments are bailing out the businesses rather than just existing shareholders.

The first of these criteria has only been partially met by countries with formal equity schemes such as Ireland or Canada. Those countries have published general eligibility rules for equity investment without setting out clearly under what terms investments should be made (suggesting decisions will be made on a 'case-by-case' basis, and based on potential borrowers having a 'significant' role in the national economy). The UK and New Zealand have not published any guidance at all on the criteria and means by which companies should be helped.

On the second criteria, there are some examples of good practice. For example, the Swedish government's investment in Scandinavian Airlines was at a greatly discounted rate of 1.16 kroner per share, as opposed to the previous share price of 8.88 kroner. This, along with the dilution of the holdings of other shareholders, resulted in the value of shares falling for all existing shareholders, spreading the pain of the company's takeover.

## How have businesses fared?

A third measure to look at to judge policy effectiveness is the prevalence of business failure over recent months. Governments stepped in to prevent widespread business failure as a result of short-term liquidity problems. But the more generous the measures are and the longer they stay in place, the greater the risk that the government is standing in the way of the normal process of 'creative destruction' in the economy.

There are concerns in Norway that the government's support for small businesses has been too broad, contributing to a 37% fall in the number of businesses failing during the first eight months of 2020 compared to the same months of 2019.[27] There has also been a reduction in business failure rates in other countries – for example in Canada and Germany bankruptcies are significantly down on the previous year.[28] In Japan, New Zealand and Singapore, however, after a brief drop in the spring due to administrative disruption, bankruptcies have continued at a similar rate to before the crisis.[29] In Sweden – where take-up of business support schemes has been lower than expected and where there are concerns that the administrative burden of some schemes is too high[30] – business bankruptcies rose by around 5% in March–September 2020 when compared to the same period the previous year.[31]

These figures suggest that all of the countries included in this study have supported businesses sufficiently well to avoid a major spike in bankruptcies. However, there are indications that policies in some countries, like Norway and Germany, may be holding up the normal process of business turnover.

## Were policies well-timed?

Finally, we can assess effectiveness by looking at the timing of the policies that have been rolled out: were they deployed at the right stage of the crisis, and promptly enough, to achieve their aims? Many countries prioritised speed over targeting of policies in the early phase of the crisis, delivering support quickly but in rather blunt form. Canada's CEBA programme falls into this category – it was designed in just 12 days to deliver cashflow aid to companies as quickly as possible. But, as a result, it is crudely designed, delivering lump-sum loans of CA$40,000 (£24,000) to all eligible businesses rather than allowing businesses to choose the level of debt they want to take on. However, this policy can broadly be judged to be a success as it delivered large amounts of money to small businesses – CA$26bn (£15bn) was delivered to businesses by the programme by 15 June, around 1.2% of Canada's GDP in the space of two months.

Countries which could make use of pre-existing loan guarantee schemes for SMEs through state-owned banking institutions, such as France and Japan, were able to channel loans to businesses somewhat more rapidly. For example, France was able to simply expand the risk-share offered by Bpifrance on its existing guaranteed SME loans to come into force as early as 16 March – the day France's Covid death toll reached 100 and the day before president Emmanuel Macron announced strict confinement measures. The UK government's SME loan programme opened for applications on 23 March – four days after the UK's death toll had reached 100 and the day that prime minister Boris Johnson told the country that people 'must' stay at home. The UK's more widely used Bounce Back loan scheme for SMEs did not begin until 4 May.

There are some examples of policies that were less well timed. In Ireland, for example, it took the government longer than in other countries to announce business grant schemes, with the Restart Grant not being announced until 2 May; a similar scheme for offering business rate rebates in the UK had been announced in March.[32] The Irish government then further expanded this scheme on 23 July. As a result, these grants in Ireland will not have helped such businesses with their immediate cashflow problems at the height of the crisis, as similar schemes in other countries were designed to do.

# Conclusions

In the early phase of the crisis, most governments acted quickly to delay tax payments, provide businesses with grants, ensure firms continued to have access to credit and – in some cases – adjust bankruptcy procedures to ensure solvent but illiquid firms were not forced into administration. The focus in that early phase was to keep businesses afloat through the economic shutdown. All these countries avoided a sharp rise in business failure – to that extent, the policies they deployed were effective.

With coronavirus continuing to pose a threat around the world, most of the countries we examine in this report are maintaining some of the policies that were adopted at the start of the crisis in some form. Most tax changes and business grants have been finite, either limited by time period or amount. But some countries have chosen to extend grant schemes. For example, Canada's rent subsidy scheme was extended to cover September 2020, while France's monthly grants have been made available for the tourist sector until the end of the year.

Most countries have also made loan guarantees available until the end of the year (as in France and New Zealand) or even longer – Germany's KfW special loans and Singapore's working capital loans will be available until March 2021. In the UK, chancellor Rishi Sunak announced in late September that the application period for the main UK-wide government guaranteed business loans would be extended to the end of the year.

Where schemes have not been extended, some governments are now under pressure to do more. For example, the Norwegian government is facing calls to reintroduce business grants that ended at the start of September.[33]

As the threat from the disease changes and restrictions on economic activity change, governments will need to amend their business support programmes to ensure that taxpayer funds are well targeted and that their economies remain dynamic, while minimising the risk of short-term pain and long-term economic scarring from widespread business failure. Governments are increasingly trying to understand which of the impacts of Covid-19 (whether on consumer behaviour or the ways businesses must operate) are likely to be long-lasting and which will be temporary – and to tailor policy appropriately. Governments will want to support businesses that continue to face temporary restrictions on their activities.

But they will also become increasingly concerned about avoiding wasting taxpayer money on propping up businesses with no long-term future (including by hindering the normal process of creative destruction) or incurring large deadweight costs by supporting businesses that could survive on their own. It will become increasingly important to ensure policies are designed such that businesses are incentivised to cease claiming support as their economic prospects improve. For those businesses that face long-term problems, governments must decide whether they warrant ongoing taxpayer support.

To make most efficient use of taxpayer money, any new schemes should focus on the issues companies face at this stage of the crisis, rather than trying to compensate those who were hardest hit in the spring. For example, schemes could focus specifically on the firms or parts of the country still forced to close by government, or target sectors that are still suffering from particularly low demand but where demand is ultimately expected to return (for instance, tourism). Germany, for example, has introduced specific support for nightclubs and events companies, and the Irish government has allocated a 'top-up' of between 20% and 40% to payments of the Restart Grant Plus in counties Kildare, Offaly and Laois, which had been subject to local lockdowns.

As a previous Institute for Government report argued, "a longer drawn out recession, which would turn a crisis of liquidity into a crisis of solvency, may demand more imaginative use of equity and grants [rather than loans]", because unaffordable loans will weigh on future firm behaviour. However, any such grants or equity injections must also be accompanied by "a tougher attitude towards the economic prospects of the businesses being helped".[34]

As and when firms have greater certainty about what the future holds, governments should provide support to encourage restructuring and adaptation in business. This is where targeted schemes (like those in Singapore and Ireland), funding businesses to innovate and change their operating models to adapt to the post-crisis economy, may be useful, especially when linked to maintaining employment.

# Glossary of terms

## Abbreviations and initialisms

| | |
|---|---|
| **Bpifrance/BPI** | Banque Publique d'Investissement France |
| **CEBA** | Canada Emergency Business Account |
| **EDG** | Enterprise Development Grant (Singapore) |
| **ESF** | Economic Stabilisation Fund (Germany) |
| **GDP** | Gross domestic product |
| **ISIF** | Ireland Strategic Investment Fund |
| **JFC** | Japan Finance Corporation |
| **KfW** | Kreditanstalt für Wiederaufbau (Germany) |
| **LEEFF** | Large Employer Emergency Financing Facility (Canada) |
| **pcm** | per calendar month |
| **SAS** | Scandinavian Airlines |
| **SBCI** | Strategic Banking Corporation of Ireland |
| **SME** | Small and medium-sized enterprise |
| **SSCs** | Social security contributions |
| **VAT** | Value added tax |

## Technical terms

| | |
|---|---|
| **Equity support** | Government taking part or full ownership of a company, through the purchase of shares |
| **State investment agency** | A public body which manages public money invested in a portfolio of shares, bonds and other assets |
| **Deadweight cost** | Cost incurred by government which do not contribute to achieving their desired aims, for instance subsidising firms to do something they would do anyway |
| **Federal state** | A federal state is divided into two tiers – the federal (or central) government and regional governments – of equal status |
| **Unitary state** | In unitary states the central government is ultimately supreme and grants powers to subnational governments |
| **Social security contributions** | Taxes paid on wages, usually shared between employers and employees, to pay for welfare, pension and healthcare systems |

| | |
|---|---|
| **Development bank** | State-owned bank which supplies financing, usually through loans, to companies in specific sectors or regions of the country. |
| **Bonds** | Tradeable loans to businesses or governments. |
| **Subordinated loans** | Loans which rank below other debts if a company goes into liquidation. These loans are more generous to the debtor and less valuable to the creditor than other forms of debt as they do not harm the prospects of pre-existing creditors and are less likely to be paid back. |
| **Quasi-equity support** | Government support which mimics or could be converted into an equity stake in a business. Examples include profit-repayable loans (that is, loans which are only repaid when the company makes a profit) and convertible loans. |
| **Recapitalisation** | Restructuring of a companies debts and liabilities, often including the write-off of some debts and the conversion of others into shares. This is often (but not exclusively) undertaken by companies at risk of insolvency to shore up their financial position and ensure they can continue trading. |
| **Convertible loans** | Loans which can be turned into an equivalent value of shares in the company (or an equivalent ownership stake in unlisted companies), under pre-determined conditions agreed between the creditor and the debtor. |
| **Conditionality** | The idea that governments provide support only to companies who fulfil certain conditions, or require recipient companies to make changes to their practices in return for government support. |
| **Export credit insurance** | Also known as trade credit insurance, this is an insurance policy that promises to reimburse businesses if they do not receive payment (or goods/services) from a foreign business after they have provided goods/services to (or paid) them. Often offered by government export credit agencies to encourage businesses to expand operations abroad, including in more risky developing countries. |

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