

## Denmark Plans to Pay Fixed Costs for SMEs Hit by Coronavirus Lockdown

By Alexander Nye

Original post [here](#).

On March 18, the Danish Minister of Finance [introduced](#) a plan to pay a significant portion of the cost of small and medium businesses whose revenues fall by more than 25% during the coronavirus pandemic. The plan, which the Parliament passed on March 19, would cost the government roughly 40 billion Danish crowns (\$5.8 billion or about 1.6% of GDP) for the first three months (see details [here](#) in Danish).

The Minister also announced programs for self-employed people and for owner-operated businesses with 10 or fewer full-time employees. These programs will complement Denmark's strong existing unemployment insurance program.

Denmark is the latest country to introduce a program to help small businesses struggling with an unprecedented global revenue shock. These programs range from asking banks to voluntarily delay payment dates to broader [tax](#) or debt holidays. In some cases, [governments](#) may ease the cost for banks through regulatory forbearance. In other cases, governments provide direct subsidies to prevent SMEs from missing payments (see [India's vast farm loan waiver programs](#)).

In normal times, such programs may be [criticized](#) for creating moral hazard and raising long-term borrowing costs. During the coronavirus pandemic, though, such programs may not raise moral hazard concerns if they will sunset when the virus has passed. Also, the Danish government, by linking eligibility to dramatically falling revenues, can be relatively assured that the funds will go to companies that need them (See Table 1).

**Table 1**

<b>Decline in Expected Revenue (%)</b>	<b>Government Compensation of Fixed Costs under Program</b>
100% (business ordered to close by the government)	100%
80%-100%	80%-100%
50%-80%	60%-80%
25%-50%	40%-60%

In its SME compensation program, the Danish government noted six principles:

- Businesses in any sector should be eligible for compensation;
- Compensation will be targeted at companies with a large decrease in revenues earned domestically;
- The compensation will cover at least 25% and as much as 100% of fixed costs;

- The compensation will cover up to three months of fixed costs and will be dispensed as soon as possible;
- If revenue decreases less than expected, SMEs must repay the government; and
- Companies that are compelled to close due to a ban on staying open will receive compensation for 100% of fixed costs.

The Danish program will seek to keep the administrative costs down by requiring outside accountants to audit the reported fixed costs and the decline in revenues. To receive aid, companies have to send audited statements of their fixed costs for the past three months and hire accountants to confirm that business revenue has or is expected to fall. The government will cover 80% of these auditing costs if a company joins the program. The government will also rely on auditors to identify fraud. Supervisors will conduct random checks, and checks at the end of three months, of auditors' VAT reports. The government will use these VAT reports to adjust its aid to reflect the actual revenue losses these firms eventually suffer.