

# Large-Scale Assistance Programs for Small Businesses

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Original post [here](#).

With the economic effects of the coronavirus pandemic likely to be particularly devastating for small and medium-sized enterprises (SMEs), countries around the globe are faced with the task of determining how best to support such businesses. A number of potential intervention types exist and are already being deployed, many of which have also been used in response to earlier financial crises. This post begins by describing the fundamental challenge: to provide SME assistance quickly and on a large scale. It next examines each of the primary tools governments can use to extend assistance to SMEs on such a scale. In so doing, it provides examples of the use of these tools drawn from the current situation and previous crises. The post then presents a detailed analysis of the framework for SME assistance established in the United States by the recently adopted CARES Act as one example of how interventions can be combined to support SMEs. It concludes by offering some takeaways about why certain SME assistance interventions may be preferable to others in given contexts.

## Statement of the Challenge

Confronted with a crisis that threatens to result in widespread failure of SMEs, governments have an interest in keeping such businesses afloat, even if their activities are temporarily suspended. While failed companies can restart post-crisis, costs can arise from the need to rehire employees and reestablish business relationships. Some of these costs could be avoided if companies can remain in business in a suspended state. Government assistance to SMEs may be justified to avoid these costs.

Governments may have the funds available to provide assistance. The fundamental challenge is to get those funds into the hands of SMEs quickly and on a large scale. But there is a tradeoff between speed of distribution and the amount of due diligence that can be done on potential recipients. Governments generally lack the capacity to engage in due diligence at scale. For that reason, they often turn to private financial institutions to perform this role, given such institutions' expertise and existing relationships with SMEs.

Thus, key questions that must be answered in designing an approach to SME assistance include:

*What is the right balance between speed of distribution and due diligence on potential recipients?*

*To what extent should private financial institutions be utilized to help achieve the right balance?*

*If private financial institutions are to be utilized, how should the SME assistance be structured so as to provide them with adequate incentives to actually perform their intended role?*

## Types of Large-Scale SME Assistance

1. Grants - government payments to or on behalf of SMEs
2. Forgivable Loans - loans extended to SMEs that they do not have to repay under certain circumstances

3. Direct Lending - government loans to SMEs
4. Credit Guarantees - government guarantees to induce private firms to lend to SMEs
5. Funding for Lending - funding for private lenders to induce them to lend to SMEs
6. Payment Forbearance - delays on amounts SMEs owe to creditors
7. Tax Policy Changes - waivers of/revisions to the tax code to reduce or delay taxes owed

## Grants

Arguably the most direct way to assist SMEs is by providing them with funds they do not have to repay. Other tools such as loans and payment delays are provided in the expectation that SMEs' ability to service loans and meet other obligations will improve over the duration of the intervention. If this does not occur, SMEs will be saddled with loans that they cannot repay and payments they cannot make. Given the severity of the pandemic's effect on SMEs and its uncertain duration, it is perhaps not surprising that grants play a key role in many countries' approach to SME assistance, despite their cost.

In Denmark, for example, the government [established a program](#) that pays a portion of the fixed costs of eligible businesses for up to three months. Businesses that expect to lose at least 25% of their revenues will see the government pay at least 40% (and up to 100% for businesses that lose all revenue) of fixed costs, including payroll and rent. The program's initial three months are expected to cost 40 billion Danish crowns (\$5.8 billion or about 1.6% of GDP). In Australia, the government is providing [grants of up to AUD \\$100,000](#) (\$59,960) based on a business's employment tax withholdings. It is distributing these grants via the system businesses use to make their withholdings.

Other grant-based programs have focused on providing fixed, relatively small amounts of money to SMEs quickly while more substantial support is pending. The United States has appropriated \$10 billion so that applicants for coronavirus economic disaster loans can receive advances of up to \$10,000 per potential borrower while loan applications are pending. Recipients do not have to repay the advances, even if a loan application is ultimately rejected. In Austria, the government established a [€1 billion hardship fund](#) to provide immediate payments of up to €1,000, with the possibility of monthly payments of up to €2,000 for three months following an application process. A German program provides [€50 billion in grants](#) to support SMEs and self-employed individuals in all sectors. SMEs with the equivalent of up to five full-time employees will receive €9,000 over the course of three months, while SMEs with the equivalent of up to 10 full-time employees will receive €15,000 over three months.

Many governments are using grants to subsidize wages. For example, businesses and nonprofits that have lost 30% or more in revenue due to COVID-19 are eligible for the [Canada Emergency Wage Subsidy](#). It supports 75% of the first CAD \$58,700 of each employee's salary for three months. Similarly, Australia's wage subsidy provides SMEs that have lost 30% of revenue relative to 2019 a fixed grant of AUD \$1,500 per employee every two weeks for up to six months. Large businesses are also eligible for this grant, administered through the [JobKeeper program](#), which is expected to cost the government AUD \$130 billion (approximately 7% of GDP). Singapore's [Job Support Scheme \(JSS\)](#) co-funds different amounts of employee salaries in different industries for a period of nine months: 25% of the first SGD \$4,600 (\$3,200) of monthly wages for all employees, 50% for food service workers, and 75% for aviation and

tourism workers. A notable feature of the Singapore program is that employers [do not need to apply](#); the government will calculate the subsidy based on their tax withholdings and dispense it in three installments that are estimated to cost SGD \$15.1 billion total (approximately 3% of GDP).

In some programs, only furloughed or laid-off employees qualify. For example, the United Kingdom's [Coronavirus Job Retention Scheme](#) explicitly prohibits employees receiving the subsidy from undertaking work for their employers. Programs with these types of restrictions operate more like a form of unemployment insurance than direct assistance to the businesses themselves. The primary benefit to SMEs appears to be continued ties to an idled workforce that can be quickly reactivated once conditions improve. Germany's existing [kurzarbeit](#) policy allows employers to furlough workers in periods of economic hardship; during that time, the government pays 60% of their pre-crisis salary or 67% of their pre-crisis salary if they have children. Germany recently expanded eligibility for this program to companies with at least 10% (previously 30%) of their workers under furlough. Estonia and Belgium, among others, also have similar temporary unemployment programs.

### Forgivable Loans

Other types of support can function like a grant. The cornerstone of the United States' assistance for SMEs is a \$349 billion program that guarantees loans that can be forgiven in an amount equal to eight weeks of the borrowers' key expenses, including payroll, mortgage interest, rent, and utilities. Following forgiveness, borrowers will have received a grant covering these expenses similar to that provided by Denmark's program. Austria has developed a program with a similar structure -- a €15 billion (\$16.2 billion) ["corona crisis fund"](#) that provides loans, of which the portion used for a borrower's operating costs, such as energy costs, insurance or rent, can be 75%-forgiven. Under the [Canada Emergency Business Account program](#) established in response to the pandemic, SMEs can borrow up to CAD \$40,000 (\$28,000), of which CAD \$10,000 will be forgiven, conditioned upon timely repayment of the remaining balance.

### Direct Lending

Some countries lend directly to SMEs through public institutions such as state or development banks. An example of direct lending to SMEs is the [Business Development Bank of Canada](#) (BDC). The BDC serves a counter-cyclical role, as its lending activities increase during periods of economic instability. During the Global Financial Crisis, BDC lending was a key component of the Canadian government's approach to providing assistance to SMEs, as the government provided additional funding for new or existing programs. Through the Business Credit Availability Program (BCAP), the government allocated additional funds to the BDC for working capital loans, term lending, and loan guarantees. In 2010, the BDC expanded its offerings with the Emergency Recovery Loans Program, which provided 3,700 businesses with pre-approved financing for working capital needs up to CAD \$100,000.

Ireland is using an existing institution to lend directly to a specific subgroup of SMEs. The Irish government established [MicroFinance Ireland](#) in 2012 to provide liquidity support to microenterprises that do not meet the lending criteria of private banks. This year, MicroFinance Ireland launched an [emergency lending program](#) for microenterprises negatively impacted by the pandemic. In order to be eligible for the program, applicants must demonstrate through financial projections that the pandemic is expected to decrease turnover by 15%. The loans are

interest-free with a payment moratorium for the first six months, which eases the initial debt burden on microenterprises during the period of economic uncertainty.

Countries such as [Spain \(Instituto de Crédito Oficial\)](#), [France \(OSEO\)](#), and [Japan \(Japan Finance Corporation\)](#) also have institutions that lend directly to SMEs. But direct lending programs for SMEs are rare in comparison to other interventions, likely because direct lending programs require the government to utilize an existing vehicle or create a new vehicle from scratch during a crisis.

### Credit Guarantees

Rather than providing loans to SMEs directly, governments can encourage private lenders to do so by at least partially guaranteeing those loans. Some governments use credit guarantee programs to promote SMEs' access to credit even during non-crisis times. But they often expand these programs or develop new ones during crises. That has happened in the current pandemic and also during earlier events such as the Global Financial Crisis and the Asian Financial Crisis.

Typically such programs involve the government guaranteeing loans approved by private lenders, often with the rationale that such lenders are better positioned to engage in credit analysis than the government. Less commonly, governments themselves have been responsible for the loan underwriting process. In Japan's [Special Credit Guarantee Program](#), adopted in 1998 during its banking crisis, the government made underwriting decisions based on a short list of negative characteristics such as tax delinquencies and previous bank loan default. But the program [has been criticized](#) as having contributed to misuse by borrowers. Government involvement in underwriting may also result in high program administrative costs, as appears to have been the case with [South Korea's Credit Guarantee Fund](#).

SME credit guarantee programs have typically provided partial guarantees, often in the range of 70%-80%, to leave banks with some of the loss associated with a non-performing loan to incentivise effective credit analysis. Some countries have sought to preserve these incentives while still fully guaranteeing loans, particularly in times of crisis. In Thailand, the [Thai Credit Guarantee Corporation](#), established during the Global Financial Crisis, provided a full guarantee, but only if a participating bank's portfolio of guaranteed loans did not have non-performing loans that exceeded 16% of the total. Chile's [FOGAPE](#) takes a unique approach to risk-sharing, determining the percentage of a loan to be guaranteed pursuant to an auction in which banks bid for the right to provide a certain amount of guaranteed loans and bids with the lowest guarantee percentages are selected first, until the total amount of guarantee rights has been allocated.

Borrowers typically pay a fee for the guarantee. Flat fees of [1% to 2% of loan amounts are common](#). A reduction in such fees is often a way that existing programs are adapted in a crisis.

SME credit guarantee programs can either be broadly available or, less commonly, limited to borrowers meeting specific criteria, such as [those who can demonstrate that they have been denied a loan outside of the program](#) or [those with a history of profitability](#). What types of loans will be eligible is also an important consideration. Programs often specifically include shorter-term working capital loans. In Canada, a Global Financial Crisis-era initiative called the [Canada Small Business Financing Program](#) excluded working capital loans, an omission that was seen as limiting its effectiveness.

For more information about Credit Guarantee Programs for SMEs, please see [YPFS's analysis of this topic](#).

### Funding for Lending

An additional means for encouraging lending by private banks to SMEs involves providing banks with the funding to do so. Under such funding-for-lending programs, the government, frequently via the central bank, provides low-interest-rate funds to the banking system, while requiring or incentivizing banks to use the money to support SMEs. In response to the COVID-19 pandemic, the [Bank of England](#) (BoE) and the [Reserve Bank of Australia](#) (RBA) are each conducting funding-for-lending programs. To incentivise banks to lend to SMEs, both central banks offer two tranches of money to eligible banks. All eligible banks have access to the first tranche, but banks can only access the second tranche if they use the first tranche to increase their loans to SMEs. The BoE ran a similar program in 2012, and although the multi-tranche structure was not included in the initial phase, it was added when the program was [extended](#) in 2013.

The BoE set no upper limit on the overall size of either the 2012 or the current program. Banks borrowed £42 billion (roughly \$67 billion, 2.5% of the UK GDP in 2012) through the original program between June 2012 and April 2013. Other central banks have announced a maximum size for their funding-for-lending programs. The RBA set its program at AUD \$90 billion (\$52 billion, or 4.8% of GDP); [Hungary's](#) 2013 program, HUF 750 billion (\$3 billion, or 2.2% of GDP); [Saudi Arabia](#), SAR 13.2 billion (\$3.5 billion, or 2.5% of GDP); and [Taiwan](#), NT 200 billion (\$6.6 billion, or 1.1% of GDP). Still, the amount of funds available to each bank depends on the size of its loan portfolio.

Typically, only companies with prior access to a central bank's discount window are eligible to participate in funding-for-lending programs due at least in part to the pre-existing technical and operational capacity of institutions already in the central bank system. Central banks are finding ways to expand eligibility, however. For example, the RBA said in announcing its program that it had developed a [complementary program for nonbank lenders](#).

To encourage banks to begin lending to SMEs as soon as possible, funding-for-lending programs can reward banks for the lending they had extended to SMEs even before the central bank had made the funding available. This is accomplished by using a date before the crisis began as the date by which the central bank will begin counting new lending. For example, in the current crisis, the BoE used December 31, 2019 and RBA used January 31, 2020. This ensures that banks can benefit appropriately if they were already lending to SMEs before the central bank announced its program but after the crisis began.

Funding-for-lending programs are not exclusively conducted by central banks. For example, [South Korea](#), [Saudi Arabia](#), [Ireland](#), and the [EU](#) (via the European Investment Fund) have each established funding-for-lending programs where the fiscal authority provides the funds to banks and sets similar stipulations and/or incentives for banks to lend to SMEs at favorable rates.

For more information about Funding for Lending for SMEs, please see [YPFS's analysis of this topic](#).

### Payment Forbearance

Assistance to SMEs focused on increasing the funds coming into a business can be complemented by programs aimed at delaying or reducing outflows. Payment forbearance allows businesses to simply delay paying amounts owed. Creditors sometimes implement these programs during normal times, especially when the institution in question thinks a business is suffering but is viable as a going concern. During economic downturns, governments are more likely to step into the picture and create their own programs by incentivizing or outright requiring forbearance.

Which creditors should offer forbearance and for which types of obligations is a critical question. SMEs can have payment obligations to entities in the public sector, financial private sector, and nonfinancial sector. Public-sector payment obligations can include government-owned utilities and other services, government-sponsored entities, and, of course, taxes (discussed in more detail below). It may be relatively easy for a government to waive such payments for a short period. On March 18, for example, Dubai and Abu Dhabi reduced [15 different customs fees, taxes, and other costs for businesses](#).

In the financial sector, banks typically have procedures for working with borrowers who are experiencing temporary financial stress. In the current crisis, some of the largest banks [voluntarily created forbearance programs](#). A broad, government-initiated moratorium on loan payments to banks and other financial institutions could offer relief to small businesses during a crisis. On March 17, Italy adopted such a plan as part of the “[Cura Italia Decree](#)”. Under this plan, amounts owed by Italian SMEs with no non-performing exposures on financings to banks, financial intermediaries, and other entities authorized to carry out lending activity in Italy are suspended until September 30.

SMEs also may have obligations to creditors in the nonfinancial private sector, such as landlords and suppliers. A French program adopted in response to the current crisis allows SMEs to apply [to defer rent and utility payments](#).

Which businesses will receive forbearance must also be considered. On March 19, Korea’s Financial Services Commission (FSC) announced a [forbearance program](#) that appears to offer blanket eligibility. Under the program, SMEs can access a six-month minimum extension on existing loans and guarantees from both banks and nonbanks. Blanket eligibility may be the most efficient policy in a pervasive crisis such as the current one, in which the sheer number of affected SMEs is so large as to challenge systematic efforts to distinguish the truly needy. However, blanket eligibility, as seen in some of India’s [farm loan waiver programs](#), can also be susceptible to abuse [due to moral hazard](#). Recent small-business programs in Europe have tended to limit eligibility to borrowers that meet certain criteria related to the impact of the coronavirus on their businesses.

Governments can negotiate forbearance programs with creditor associations for institutions like banks and non-banks, then bind them to the program. The Central Bank of Ireland announced [one such agreement](#) in response to the COVID-19 pandemic. Authorities can also outright require forbearance. In some cases, governments pass laws that require creditors to restructure SMEs loans. The Japanese government [passed such a law](#) during the Global Financial Crisis.

Typically, payment forbearance programs operate for a short and specified time period tied to the nature of the crisis. In cases of natural disasters, these programs can last for just a few months, as affected regions return to normalcy. Financial crises can be different. Governments

that introduce temporary programs can end up extending them under political pressure or simply because the economic stress has continued longer than expected. During the Global Financial Crisis, for example, the Italian government, in collaboration with a creditor association, imposed a loan forbearance program for SMEs in August 2009 that Italy continued to [extend and modify through at least 2014](#).

A challenge associated with forbearance programs is that they have the potential to negatively affect the creditors who were to have received the payments that are now being delayed. For this reason, forbearance programs are sometimes paired with measures intended to support affected creditors. Under the Italian debt moratorium discussed above, lenders are entitled to a government guarantee equal to 33% of suspended payments if 18 months after the end of the moratorium a debtor remains unable to pay. In Saudi Arabia, [a program delaying SME payments to banks and financing companies for six months](#) also includes financing from the Saudia Arabrian Monetary Authority for such banks and financing companies.

For more information about Payment Forbearance for SMEs, please see [YPFS's analysis of this topic](#).

### Tax Policy Changes

Some governments choose to lessen SMEs' tax burdens as a way to provide them with relief during a crisis. Unlike some of the other tools for assisting SMEs, governments may change tax policies to benefit SMEs just as frequently during normal times as during crises. These programs have a tremendous range, but all tend to alter the corporate tax code. They can encompass everything from delays on employers' social contributions to tax cuts and changes in how tax deductions work.

One of the most common tax policy tools, regardless of whether times are good or bad, is altering tax deductions for SMEs. Governments usually deploy these kinds of tax policies to encourage or discourage different kinds of investment by SMEs. In 2005, while the United States economy was still in expansion, the government passed the [Gulf Opportunity Zone Act of 2005](#). This law contained a provision that increased the size of the deduction small businesses could take on property expenditures, which encouraged businesses to improve their properties. One Australian response to the COVID-19 pandemic operates on a similar logic. Australia's [Backing Business Investment \(BBI\)](#) program allows businesses with turnover of less than AUD \$500 million to deduct 50% of the cost of a business's investment in a new asset. Programs like this provide cash flow relief and incentivize increased capital expenditures during the COVID-19 crisis.

Another common tool, especially during a recession, is cutting or delaying taxes for SMEs. The most common variant of this tool, which in some ways is similar to payment suspension, is the VAT (value-added tax) or sales tax deferral, in which payment of the VAT is merely delayed for a specified period of time. One can find a recent example of this policy in the [Republic of Korea](#), which suspended the VAT for companies earning 60 million won or less per annum. [Vietnam](#) announced a five-month VAT deferral, during which businesses would not be punished for late payments.

Given the circumstances in which tax policy changes are being introduced, it is important that they be on taxes that are ["profit insensitive"](#) (i.e. taxes that are paid regardless of whether the

SME is profitable). A break on a tax that a business pays only when it is making a profit is unlikely to be of much use during a crisis.

## **CARES Act**

On March 27, 2020, the United States passed the [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#), which establishes a number of measures to combat the economic impact of the COVID-19 pandemic, including aid to SMEs.

### **Forgivable Loans and Grants**

Section 1102 of the CARES Act allocates \$349 billion to the Paycheck Protection Program, which guarantees Small Business Administration (SBA) sponsored loans made by financial institutions of up to 250% of an employer's pre-pandemic average monthly payroll (up to a maximum loan value of \$10 million each) to businesses with up to 500 employees. The CARES Act also expands eligibility to sole proprietors, independent contractors, eligible self-employed individuals, certain nonprofits, and certain tribal business organizations. Borrowers can use the proceeds of the guaranteed loans to fund payroll costs, employee benefits, mortgage interest payments, rent, utilities, and interest on existing debt, in addition to other allowable SBA uses. SBA fees typically associated with such loans are waived, and the interest rate lenders can charge is capped at 4% with a minimum payment deferment of six months. The Treasury [has set this rate](#) at 1%. The CARES Act also waives requirements borrowers must typically meet to receive an SBA loan, including providing a personal guarantee and/or collateral and demonstrating an inability to obtain credit elsewhere. Any loan not entirely forgiven as described below can have a maximum maturity of 10 years from the forgiveness application date.

Under Section 1106, guaranteed loans provided pursuant to Section 1102 will be forgiven in an amount equal to the borrower's spending on payroll (including salaries, wages, and benefits), mortgage interest, rent, and utilities in the eight weeks after the origination of the loan. This forgiveness amount is subject to reduction (a) in proportion to the reduction in the number of employees during this eight week period as compared with pre-pandemic periods and (b) based on the amount salaries and wages are reduced beyond 25% during this eight week period as compared with pre-pandemic periods. Rehire provisions incentivize businesses to bring back staff and restore salaries and wages by enabling borrowers to avoid loan forgiveness reductions if certain previously adopted job or pay cuts are reversed.

The CARES Act also expands other loan opportunities for SMEs. Section 1102 increases the maximum amount of the SBA's Express Loans to \$1 million from \$350,000. Section 1110 expands eligibility and loosens requirements for the SBA's Economic Injury Disaster Loans (EIDL) program and establishes emergency grants in amounts up to \$10,000 per potential borrower to be paid while loan applications are pending, with no repayment required even if a loan application is ultimately rejected. Section 1112 provides for six months of payment subsidies on existing SBA loans.

### **Funding for Lending**

SMEs may also benefit from the \$500 billion in loans, loan guarantees, and other investments the CARES Act makes available to assist businesses, states, and municipalities under Section 4003. Section 4003 requires the Treasury Secretary to "endeavor to seek" to establish a program providing financing to lenders who make loans to eligible businesses with between 500



and 10,000 employees on favorable terms including a maximum annual interest rate of 2% and at least six months of deferred payments. Section 4003 also allows for the creation of a “Main Street Lending Program” aimed at small and mid-sized businesses that are [too big for SBA lending but not big enough for capital markets](#). On March 23, 2020, the [Federal Reserve announced](#) that it would soon establish a Main Street Business Lending Program, which would provide support to SMEs and complement SBA lending. Further information about this potential program is not yet available.

On April 6, the Federal Reserve [announced](#) that it would establish a new lending facility to offer term financing backed by loans in the Paycheck Protection Program. Further information about this program is not yet available.

### Tax Policy Changes

SMEs may also benefit from a number of the tax provisions contained in the CARES Act. Section 2301 establishes an employee retention tax credit for businesses fully or partially suspended as a result of a government order stemming from the coronavirus or that otherwise suffer a more than 50% decline in revenue. Eligible businesses will receive a refundable credit against employment taxes equal to 50% of qualified employee wages (up to \$10,000 in wages per employee). For businesses with more than 100 employees, only wages paid to employees not performing services due to coronavirus suspensions are included. Section 2302, meanwhile, allows businesses (although not those who have received the loan forgiveness provided by Section 1106 described above) to delay payment of 2020 employment taxes until December 31, 2021 (50% due) and December 31, 2022 (the remaining 50% due). There are also provisions for relaxing restrictions on net operating losses, providing corporate alternative minimum tax credits, and business interest expense deductibility.

### Key Takeaways

Evaluations of SME assistance interventions are [limited and/or mixed](#). Nonetheless, it is possible to identify several key takeaways associated with their use.

#### ***In order for assistance to be effective, SMEs must receive it in time***

Speed is often essential when seeking to support SMEs during a crisis because of SMEs’ limited reserves and reduced access to other forms of financing. Which intervention type or types will enable a country to respond most quickly can depend on what resources, programs, infrastructure, etc. it had in place heading into the crisis. Many countries expand existing SME support programs in response to crisis conditions. An intervention like direct lending seems difficult to introduce during a crisis absent such a pre-existing program given the resources and infrastructure it requires, but where institutions like state banks exist, they may be able to provide lending on favorable terms more readily than the private banking system.

Grants, while costly, can be relatively easy to implement, particularly where there is an existing mechanism like the withholding system that can be used for their distribution. Even relatively small grants given quickly may afford countries adequate time to adopt interventions that are more difficult to implement.

Funding for lending can potentially be implemented under existing central bank authority, meaning that no legislative or executive action would be required. Tax policy changes and payment suspensions involving government-controlled creditors, meanwhile, can be

accomplished without the involvement of third parties such as private banks and private creditors.

In the developing world, credit guarantee programs may be the intervention type most easily adopted because they leverage the expertise of private banks in a context of limited government capabilities. Guarantee programs have the added benefit of not requiring a large upfront expenditure, as costs are incurred only after loan defaults.

### ***Due diligence on potential recipients is also an important consideration***

While speed of distribution would be improved by conducting no due diligence on potential recipients of SME assistance, such an approach runs the risk of widespread waste, fraud, and losses to the government. Governments generally lack the capacity to engage in this sort of diligence. The experience and existing relationships theoretically possessed by private financial institutions may make them well-suited for this role. However, the extent of the diligence must still be balanced with the desire for speed, and the incentives of private financial institutions to perform the role must be addressed.

### ***Assistance to financial institutions does not automatically result in greater lending to SMEs absent the right incentives***

The experience of past crises suggests that merely providing assistance to the banking sector doesn't ensure that such assistance will be used to increase lending to SMEs. During the Global Financial Crisis, capital injections for banks did not necessarily improve SMEs' access to bank credit. Even guarantees on SME lending may not result in such lending [where banks are reluctant to take them up](#). The Paycheck Protection Program under the CARES Act in the US is an example. It may be similar to a grant for borrowers whose loans are forgiven, but the role of banks as intermediaries means that the government can't control how much lending actually occurs. Elected officials followed the announcement of the program with strong language urging banks to participate. Additional tools such as credit mediators, timely reporting of SME lending, and SME lending codes of conduct may be necessary.

### ***Actual sources of SME credit must be considered***

SMEs are increasingly obtaining financing from outside the traditional banking sector. Programs that operate solely through this sector (e.g., a guarantee program available only on bank lending or a funding-for-lending program targeted at just those institutions with discount window access) may be insufficiently broad. Some programs are being tailored with this new reality in mind by [including non-bank lenders alongside traditional banks](#).

### ***Interventions may have effects on other parts of the system that must be considered***

Payment forbearance programs can be attractive as they provide immediate relief to SMEs without any government outlay. However, the suspension of payments to creditors may have a negative impact on those creditors who themselves in turn may require government intervention.

### ***Ultimately macroeconomic conditions will need to improve relatively quickly for most intervention types to be successful***

Programs that provide SMEs with loans or that delay payments otherwise owed can meet the short-run liquidity needs of businesses. However, absent an improvement in macroeconomic conditions they [may only postpone insolvency](#).