

Making SME Credit Guarantee Programs Affordable: Subsidized Interest Payments for an Initial Period

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Original post [here](#).

The coronavirus pandemic has severely affected small businesses across the world and forced many to close temporarily. Several countries have provided relief to help them cover their fixed costs until social conditions return to normal. Government-guaranteed loans can help, but a small business may hesitate to take on new debt that only adds to its monthly fixed costs.

For that reason, the U.K. government's new temporary [Coronavirus Business Interruption Loan Scheme](#), announced on [March 17, 2020](#), includes a full government subsidy of the first 6 months of interest payments on guaranteed loans. This feature appears designed to address the issue of providing liquidity to small and medium-sized enterprises, while removing the immediate burden of interest payments, allowing for viable SMEs to survive until macroeconomic conditions improve.

In our March 19, 2020 post, [Credit Guarantee Programs for Small and Medium-Sized Enterprises](#), we highlighted key considerations in the design of SME credit guarantee programs, especially how these programs have been modified in response to crises. [Literature](#) suggests that crisis-focused guarantee programs can help solve immediate liquidity problems, although their effectiveness ultimately relies on improving macroeconomic conditions.

A prior example of interest payment relief can be found in the Greek response to the Global Financial Crisis, during which it established the [Credit Guarantee Fund of Small and Very Small Enterprises \(TEMPME S.A.\)](#). The interest costs on guaranteed loans under the first phase of the program, between December 2008 and April 2009, were fully [covered by the government](#). In the second phase of the program, the interest rate for guaranteed loans was set at a [fixed privileged rate](#), based on negotiations between TEMPME S.A. and the banking sector, which was lower than the going market rate.

In 2008-2009, some programs also temporarily decreased or suspended guarantee fees, including programs such as those in [Hungary](#), [Finland](#), and other EU countries, as well as the [US Small Business Administration \(SBA\)](#). Other programs, such as [Malaysia's SME Assistance Guarantee Scheme](#), did not charge a guarantee fee at all. Decreasing or eliminating the cost of the guarantee can also relieve the immediate financial burden on SMEs.

