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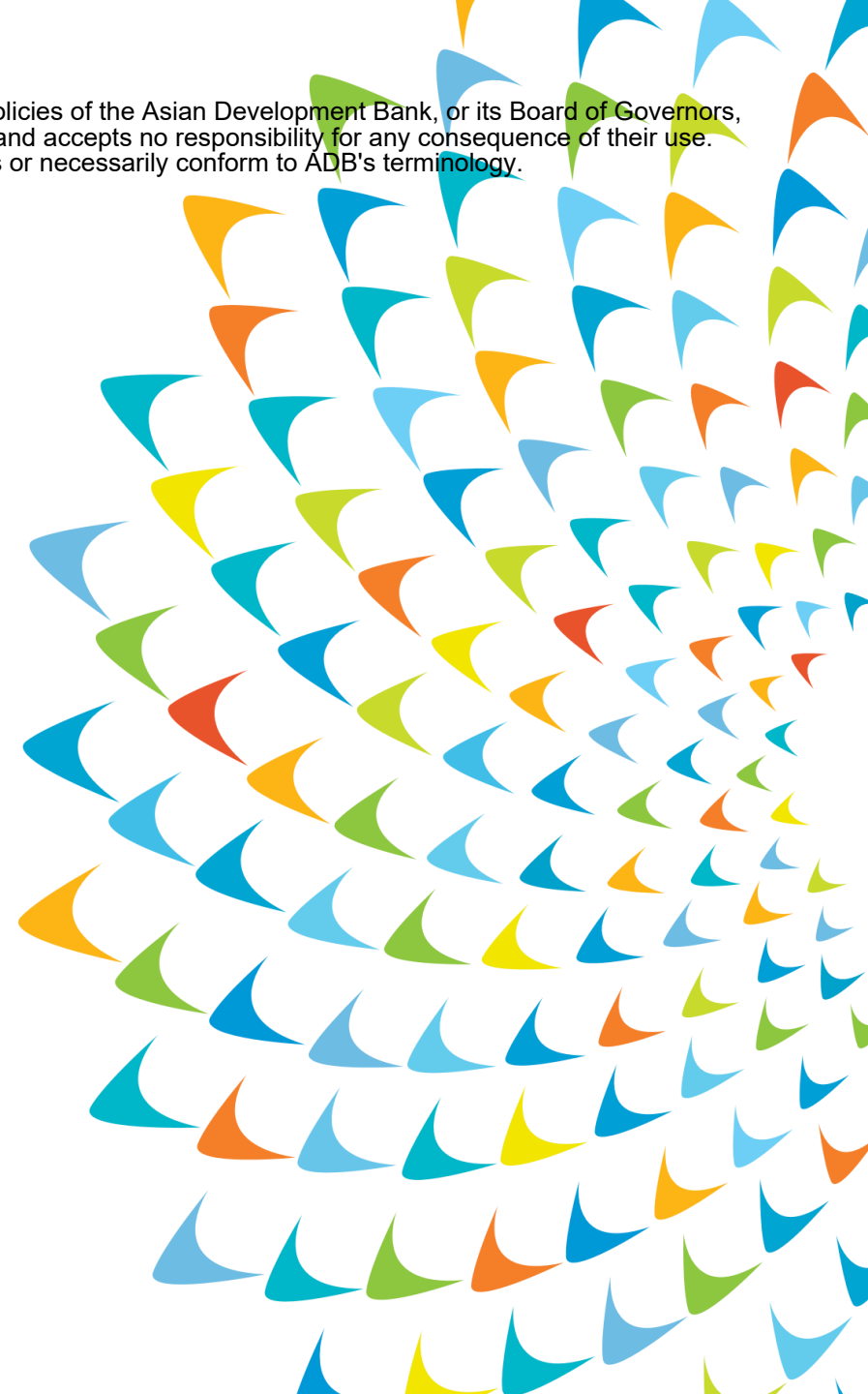
Supporting SMEs through Relief and Recovery

Economic bounce back from COVID-19 in Asia

Paul Vandenberg

PACER – Policy Action for COVID-19 Economic Recovery

Series Dialogue 5: 8 July 2020



Enterprises and COVID-19

Presentation will consider:

How are enterprises affected?

- Focus on small and medium-sized enterprises (SMEs)
- What are the stages?
- What are their chief challenges?

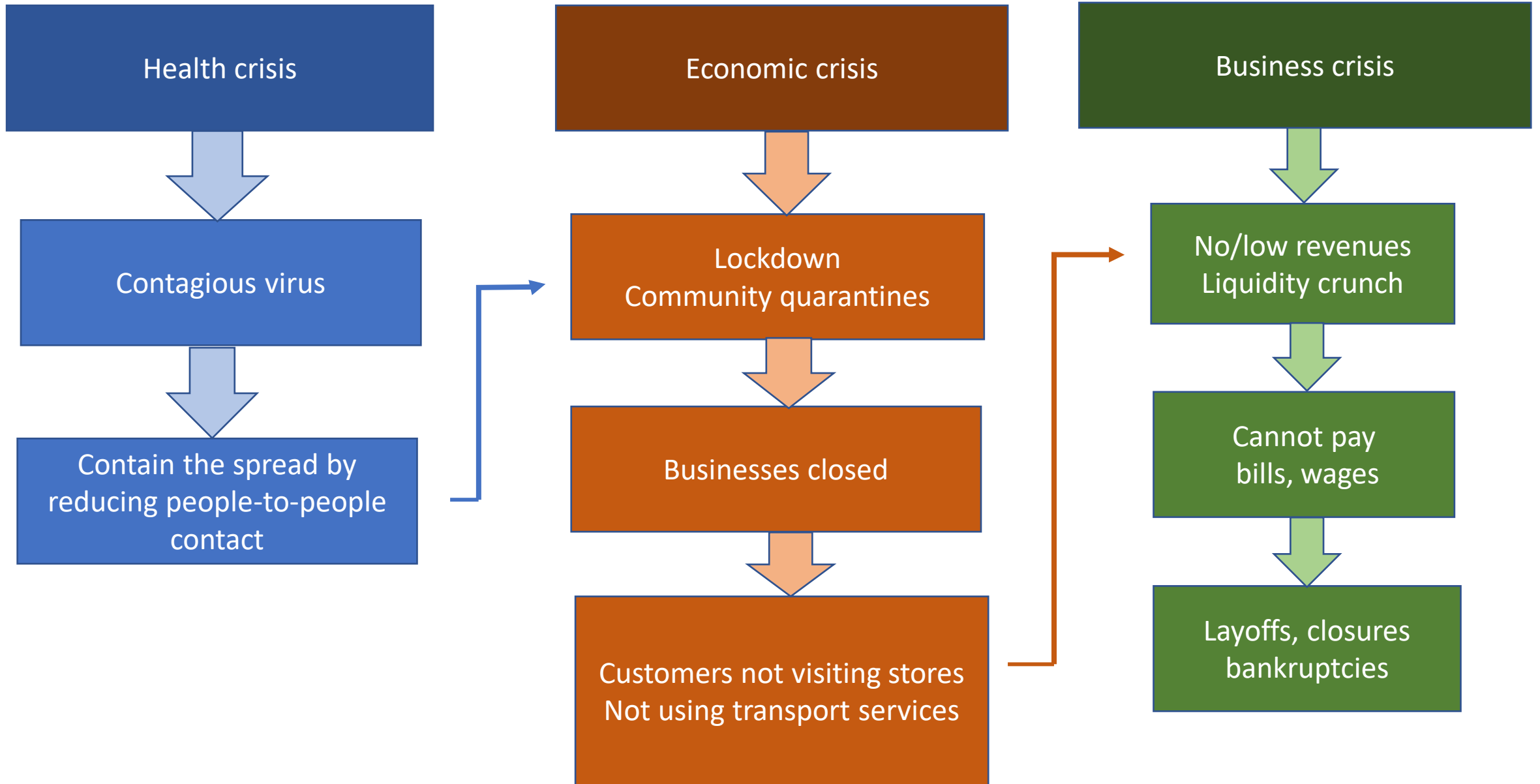
• Types of support

- Tax
- Credit
- Wage subsidy
- Enterprise pivot (new market, modify business model)
- Advice to weather the crisis

Progression

Phase 1	Gathering storm	January and February	2020
Phase 2	Lockdown	February to June	2020
Phase 3	Easing up	July to September	2020
Phase 4	Bounce back	October to March	2020-21
	<i>Second wave</i>	<i>November to February</i>	<i>2020-21</i>
Phase 5	Bounce back better	April and beyond	2021

Each country will have its own timeframe
and sequencing of policy measures.



Challenges faced by MSMEs due to COVID-19

#1

Lack of operational cash flow

#2

Low customer demand

#3

Business is closed

#4

Reduction in opportunities to meet
new clients

#5

Issues for changing business strategies
to provide new products or services.

Philippines enterprises survey - 1

- Late April – early May 2020
- Results may be similar in other countries
- Operations (Enhanced Community Quarantine)
 - 66% temporarily closed
 - 30% limited operations
 - 4% open (regular)
- Top financial challenges
 - Staff wages and SS contributions
 - Loan repayment
 - Rent
 - Invoice payments

Philippines enterprises survey - 2

- Main support needed from government
 - Wage subsidy
 - Deferred taxes, SS contributions
 - Subsidized loans
 - Tax credits
 - Deferment on loan repayment

Challenge for SMEs

- Survive
 - Avoid insolvency, permanent closure
 - Loss of work/income source for entrepreneur-owner
 - Loss of employment/income for workers
- Liquidity/cash flow is a key factor
 - To pay fixed costs
 - To pay wages
 - Importance for policy (credit, tax deferments, etc.)
- Bounce back
 - Regain demand/customers
 - Return of workers

Cash flow concerns

50% of Asian SMEs
have 1 month or less of
cash reserves

AMTC Survey Mar.-Apr. 2020

70% of Korean SMEs fear
being out of business in 6
months

31% of SMEs in
Belgium may not
survive the crisis

20% of MSMEs will not
be able to last beyond
1 month due to cash
flow difficulties

ESIEC Survey of Chinese
MSMEs, 10 Feb. 2020

50% of SMEs in
Netherlands
expect to be out
of business in 3
months

64% of MSMEs will not be able
to last beyond 3 months due to
cash flow difficulties

ESIEC Survey of Chinese MSMEs,
10 Feb. 2020

Key instruments

- Taxes
 - Credit
 - Wage subsidy
-
- Enterprise pivot
 - Advice on bounce back

Income tax

- Tax payments for 2019, due in the 2nd quarter of 2020
 - For most countries
 - Tax on income for business and personal (sole proprietor)
- Defer 2019 tax payments by 3-6 months
 - Reduces enterprise financial outflow in April
 - Will still need to paid later
- Defer monthly or quarterly tax installments until later in 2020
 - These are income tax payments for 2020
 - Tends to apply to medium and larger enterprises in most countries
 - However, with business income low, payments will be lower anyways

Income tax: examples

- South Korea: Small businesses are granted up to a 9-month extension for filing a tax return
- Myanmar: Quarterly advance income tax payments due 31 March and June 30 postponed to the end of September
- Indonesia: manufacturing workers making less than 200 million rupiah per year exempt from income tax
- PRC: Deadline for filing tax return extended, particularly Hubei
- Thailand: SMEs can claim a 300% deduction on salary payments made from April to July

VAT and consumption tax

- **Other types of tax can be also be deferred/reduced**
- Indonesia: waive 10% consumption tax on hotels and restaurants in 10 tourist destinations for 3 months
- Japan: considering temporary Consumption Tax rate reduction from 10% to 5%
- PRC: cut VAT on medical services, catering and accommodation services, some personal services, public transport, and on masks and protective clothing.
- PRC: VAT reduced from 3% to 1% on the cash accounting scheme for small businesses until the end of May
- Korea: cut VAT for small businesses with annual turnover below KRW 48 million

Tax winding down

- Deferrals were fine for the lockdown period and easing up
 - They have helped ease liquidity pressure
 - However, governments have less funds, for relief and recovery programs
 - Less ability extend deferments or other concessions
- Deferrals will end
 - Most enterprises will need to pay their 2019 in the second half of 2020
 - This will put some strain on finance
- Less tax to pay because reduced income in first 2-3 quarters of 2020
 - On the positive side little income will be less income tax to pay
 - Will see a benefit in early year when tax on 2020 income is due

Credit 1: Additional credit

- New credit
 - New lending
 - Through private or public banks
 - Government loan programs (SME banks)
 - Primarily for working capital
 - Central bank lowering banks' reserve requirements (to allow more lending)
 - Central bank buying securities from banks (to increase funds for lending)
- Pros
 - Gets working capital to firms
 - Allow firms to stay in operation and pay wages
- Cons
 - Will need to be repaid
 - May create enterprise debt that difficult to repay later
 - Later increase in NPLs, causing instability in banks and the financial system

Additional credit: examples

- Malaysia: central bank provide RM 2 billion for SMEs loans
 - Through commercial banks
 - Supported by a credit guarantee covering 80% of the loan value
- UK: Coronavirus Business Interruption Loan Scheme
 - Up to £5 million each for SMEs
 - Through British Business Bank, a government SME bank
- Viet Nam: banks to provide additional VND 285 trillion
 - At preferential rates: 0.5 to 1 percentage points lower than current rates
- Cambodia: \$50 million in low-interest loans to SMEs in agriculture
 - Through the Rural Development Bank
 - Also to combat end of Everything but Arms preferences
- Japan: ¥500 billion in lending to MSMEs in 1st stimulus package
 - Increased to ¥1.6 trillion in 2nd package
- Philippines: Loans of P200,000 per micro and P500,000 per SME
 - To reboot after lockdown, Ministry of Trade and Industry

Credit 2: Lower interest rates

- Reduced interest rates
 - Low interest on special loan programs
 - Reduction in policy interest rates (set by central bank)
 - Allows banks to reduce rates
- Examples
 - Malaysia: interest rate on special loans capped at 3.75%
 - Viet Nam: rates on special loans 0.5 to 1 percentage points less than current rates
- Pros
 - Reduces the cost of credit for enterprises
- Cons
 - If rates already low, then lower rates will not boost economic activity
 - May only keep insolvent firms afloat (temporarily)
 - May induce stress on financial institutions if exit not planned and implemented

Credit 3: Deferred loan payments

- Deferred loan payment on existing credit
 - For enterprises having difficulty making payments
- Examples
 - PRC: enterprises in hard-hit industries are authorized to apply for deferred loan payments
 - Korea: banks will allow rollover of payments if enterprise has difficulty servicing
 - Egypt: 6-month extension on credit repayments for SMEs
 - Hungary: loan repayments suspended to the end of 202
- Pros
 - Reduces financial outputs for enterprise, improved liquidity
- Cons
 - Push off payments to a later date - later financial stress
 - Can affect financial stability if results in future rise in NPLs

Credit 4: Credit guarantees

- Credit guarantee agency guarantees a loan from a private lender to an enterprise
 - A popular credit tool used in recent months
 - Used where C agencies exist, these have been expanded
- Increase the guarantee fund
 - More lending to be guaranteed
- Soften the terms
 - A larger portion of loan guaranteed (coverage ratio):
 - Hong Kong and Japan: 100%
 - Guarantee fee is lowered, deferred or waived
 - PRC: guarantee schemes to reduce fee by half; encouraged to set a fee below 1%
- Pros
 - Encourages banks to lend (reduces their risk)
- Cons
 - May increase the risk on guaranteed portfolio
 - Fund may need considerable replenishment later

Wage subsidy

- Government covers (partially) cost of wages of enterprise
 - Can be 75% of wages, up to a threshold
 - Used in developed countries (e.g. Australia, UK, Canada, Singapore, Scandinavia)
 - Enterprise may need to show decline in revenues as a result of pandemic
- Will phase out
 - As businesses reopen, the subsidy will be phased out
- Pros
 - Helps keep workers employed and earning a wage
 - Reduces the pressure on other types of social assistance (if workers laid-off, such as UI)
- Cons
 - Large financial outlay for government
 - Government effectively becomes “private sector’s salary paymaster”
 - Not easy to administer to informal enterprises

Enterprise pivot

- Enterprise modifies its output or business model
 - To adapt to the current business environment
 - Called a “pivot”: shift to another product/service or business model
 - Restaurants adding takeout and delivery
 - Temporarily redirecting production to needed products (masks, personal protective equipment, ventilators)
 - Digitizing for on-line sales and customer service
- Enterprises can be assisted
 - See examples online
 - Government can encourage
 - Business development service (BDS) providers can provide
 - Chambers of commerce and business associations may encourage and support

Digitalizing the bounce back

- Lockdowns have shown the importance of digital finance
- Some companies have deepened digitalization
 - Marketing on-line
 - Sourcing supplies on-line
 - Payments online
 - Banking online
- It may have pushed the e-commerce agenda
 - Bouncing back better through digitization

Advice on weathering the pandemic

- Enterprises need to know how to weather the pandemic
 - How to manage a slowdown in operations to conserve finance
- How to better manage cash flow
 - Which bills to pay
 - Which bills to negotiate for deferral
- How to manage the workforce
 - How to put workers on unemployment insurance
 - How to manage leave
 - Devising partial or staggered work reductions (hours)
- Social distancing methods
 - Whether social distancing is possible for the workforce
- Information on support
 - What government support exists
 - How to apply
 - What is offered by banks and other financial institutions

Thank you

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