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OBITUARY
• David John Smallbone
• Sonia Heptonsall

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Spring Message April 2020
Distinguished Readers and Friends,

We are at war with an unknown enemy without face, hands and leg, without land army, weapons of mass destruction, however this enemy wreaks world-wide destruction indiscriminately poor mans and riches, policymakers and celebs from all age groups. The oldest generation is the more vulnerable however we are witness of passing away children too. The terrible enemy is the **Corona Virus (COVID 19)**, a epidemic, which attacking societies at their core, claiming lives and people’s livelihoods. The potential longer-term effects on the global economy and those of individual countries are dire.

The potential longer-term effects on the global economy and those of individual countries are dire. In a new report, Shared responsibility, global solidarity: Responding to the socio-economic impacts of COVID-19, Antonio Gutteres, the United Nations Secretary-General calls on everyone to act together to address this impact and lessen the blow to people. This pandemic is the largest threat to the mankind after the World War II and brings such deep recession which has no precedent for it. The virus attacks the life and living of the people, World vide 25 million employments are endangers and 40% of the global investments are hindered.

The number of confirmed infectious patients amounted 1 709 014 from all over the word. Due to COVID 103 536 people died. The total recovered ills account 382 404 according to the report of the John Hopkins University as of 11.04.2020. The sign of infections already proved in 185 countries. (See at [https://coronavirus.jhu.edu/map.html](https://coronavirus.jhu.edu/map.html))

The most registered infected patients are in the USA: 501 615. In Europe the worst scenario we see in Span and Italy the registered ills where are 161 852 and 147 579 while 18 849 deaths and 18 849 respectively.

Out of 200 members of the ERENET we lost already two active members: **Prof. Dr. David John Smallbone**, Professor of Small Business and Entrepreneurship and Associate Director of the Small Business Research Centre at the Kingston University London and **Prof. Dr. Sonia Heptonstall**, Professor of the International Relations at the Geneva Business School. Dear Colleagues, Friend, Rest in Peace!

This issue of the ERENET PROFILE we shall devote to review the impact of the Corona Virus on the SME sector. It is a great honour for us that we received two authentic papers from Germany and China allowing us to publish their valuable evaluation. I am extremally thankful to **Sean Bartlett**, Director of Communications Center for Global Development from China, **Prof. Dr. Friederike Welter**, Head of IfM Bonn The Institute für Mittenstandsfororschung Bonn (Germany) and **Yuu Shibata**, Ph.D. in EU Law from Bologna Studio Mazzeschi and the Budapest Chamber of Commerce and Industry.

As the Easter is approaching more and more people turning toward the God. The **Pope Francis Prayer** for protection of the Corona Virus

O Mary, you shine continuously on our journey as a sign of salvation and hope.
We entrust ourselves to you, Health of the Sick.
At the foot of the Cross you participated in Jesus’ pain, with steadfast faith.
You, Salvation of the Roman People, know what we need.
We are certain that you will provide, so that, as you did at Cana of Galilee, joy and feasting might return after this moment of trial.
We seek refuge under your protection, O Holy Mother of God.
Do not despise our pleas – we who are put to the test – and deliver us from every danger,
O glorious and blessed Virgin. Amen.

Dr. Antal Szabó
Scientific Director of ERENET
PRELIMINARY ASSESSMENT OF THE IfM BONN ON THE ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC ON THE „MITTELSTAND“ BUSINESSES IN GERMANY

ANNEX

The team of the Institute for Mittelstandsforschung Bonn headed by Friederike Welter have written a preliminary assessment of the effects of the Corona pandemic on German Mittelstand firms and entrepreneurs and their support needs. More to follow as we try to understand what's going to happen and what to recommend. IfM is interested in your thoughts and experiences from your countries. See at

https://en.ifm-bonn.org/fileadmin/data/redaktion/ueber_uns/ifm-hintergrundinformationen/Background-Paper-IfM-Bonn-coronavirus_pandemic-26-03-2020.pdf?ibclid=IwAR0RbgYE3FpuvQ7eBl897DnXdGRd1xQ2PfTYX90evDqmHE_fxOmgDTSJAP0

Keywords: German Mittelstand, German SME sector, Corona Virus, Economic impact of the epidemic

JEL Classification: L10, M10, M53

PREFACE

Significant parts of small and medium-sized enterprises in Germany are affected by the coronavirus pandemic. Many entrepreneurs have been shocked by this. The quick announcements of official support measures on federal and state, sometimes municipal level, assist entrepreneurs to overcome the psychological shock. What makes the situation particularly challenging to cope with, however, is the current uncertainty about how long the prescribed and voluntary measures will need to be in place, to curb social contacts at home and internationally. For many businesses and entrepreneurs, this situation will prove difficult to life-threatening, but others will also look for creative ways to keep the damage as small as possible. Nor can it be ruled out that we currently consider the consequences of the pandemic too harmful, if a gradual restart of certain economic sectors were possible from May onwards.

In the past, the German “Mittelstand” businesses (definition see Figure 1) has proven to be stabilizing in times of crisis, due to their stronger long-term orientation compared to management-led companies, but also due to their overall lower dependence on foreign markets. The current crisis may be different from the previous ones. What can be done to support SMEs in such a way that they can contribute to maintaining economic cycles during and after the corona pandemic?

For the following considerations, the IfM Bonn assumes two crisis scenarios:

1. Scenario 1: a standstill of 2 to 2.5 months in specific consumption-oriented and manufacturing sectors and then a gradual exit from the restrictions, with reviving economic activity and increasing consumption.
2. Scenario 2: A standstill of more than 6 months, which spreads to other sectors of the economy or triggers a further demand shock as the restrictions cannot be removed.

Figure 1: Source: Pahnke & Welter (2019)

In principle, IfM Bonn recommends that, in addition to those crisis management measures that federal and state governments in Germany have passed until 26th March 2020, government should also turn its attention to (possibly) more far-reaching or longer-term effects on Mittelstand businesses. The measures taken so far are likely to cushion the greatest crisis effects in the short term among entrepreneurs and SMEs of various sizes. In the longer term, entrepreneurs and SMEs will require further support, depending on their age (start-up, existing businesses, business succession) and their level of integration into the international division of labour and value chains.

CRISIS RESILIENCE OF EXISTING COMPANIES

- Companies can reduce (fixed) costs or reduce hours (e.g., rental costs) in the event of (expected) solidary behaviour of contractual partners. Landlords and suppliers are likely to have a keen interest in continuing the contractual relationship, like restructuring in insolvency.

- The current equity capital base generally indicates that Mittelstand businesses are well able to weather a crisis. Thanks to the excellent profit situation in recent years, the equity ratio of SMEs is higher than at the beginning of the financial crisis in 2008/2009, reaching 29% in 2017 (2003: 15%) and thus almost being on a par with that of large companies (32%).

- Thanks to strong growth rates in recent years, the average equity ratios of micro-enterprises also are now similar to those of large companies. However, the share of micro enterprises that do not show any equity capital on their balance sheet is much higher than that of larger enterprises. For example, around one in four companies (23% in 2016) in the size category with annual sales of up to one million Euros has no equity capital. (For comparison: the share of large companies without equity 4%). Of approx. 3.3 million micro enterprises with a turnover of between 17 500 and 1 million euros, around
770,000 have no capital buffer to fall back on in the crisis. They will (have to) initiate a liquidation with a higher probability already in scenario 1 than the larger companies.

In the retail sector, the share of "capital-less" companies is somewhat higher. Accordingly, of the approx. 340,000 retail businesses with annual sales of between €17,500 and €1 million, around 110,000 must be regarded as potentially at risk. In Scenario 2, the liquidation rate is likely to rise sharply again - even among small and medium-sized companies.

- Measures such as short-time work (Kurzarbeit) and the additional subsidized credit assistance by KfW offer employers comprehensive relief (for these and more economic measures introduced by German Federal Government see for example: https://www.bmwi.de/Redaktion/EN/Downloads/a/a-protective-shield-for-employees-and-companies.pdf?__blob=publicationFile&v=3).

However, micro enterprises have little experience in applying for support measures or loans and they generally shy away from borrowing. Therefore, the use of credit assistance support is likely to be subdued in service sectors in which it will not be possible to catch up on sales after the crisis. The instant financial transfers for solo entrepreneurs and micro enterprises, therefore, will be of great importance. These groups will be eligible to receive one-off payments to bridge income losses for 3 months, and under certain circumstances for 5 months.

- Employment relationships can be stabilized through the labour market policy measures taken so far. However, the short-time allowances should be approved on a weekly rather than monthly basis. The situation could be different for micro enterprises and economic sectors without digitizable services or marketing channels such as gastronomy/hotels or leisure/cultural enterprises.

With regard to the crisis resilience of Mittelstand businesses, the IfM Bonn assumes the following effects in summary:

**Scenario 1:**

- For most Mittelstand businesses, a short-term crisis should not lead to liquidation. Exception: businesses with few resources and high current fixed costs or those that shy away from taking advantage of support measures. In some sectors, lost sales can be made up for to a large extent once the crisis has subsided, but in others, e.g. the catering trade, they cannot.

- Nevertheless, the capital reserves for investments, etc. will be reduced. Investments depend on market expectations and require halfway reliable perspectives on when official restrictions and shutdown regulations will be withdrawn.

- The existence of companies is particularly at risk in the cultural, entertainment and leisure industries, in retail, tourism and catering. The same applies to solo entrepreneurs with high fixed costs. Self-employed with low running costs are likely to pause their activities and resume them once the economy revives. For this group in particular, one-off payments and, subordinate to this, the basic income support should be appropriate support measures.

**Scenario 2:**

- In this case, a higher rate of liquidation and a spill-over to other economic sectors acting as suppliers can be expected. International demand is likely to fall further away gradually. In general, investment and innovation activity will decline. Lower oil and construction prices, on the other hand, are likely to spur business recovery.
Half of the 2.3 million solo entrepreneurs and half of the 1.8 million entrepreneurs with employees may experience prolonged periods of no income and business earnings. In this case, job losses must be expected, especially among micro enterprises and, amongst these, especially those with very low turnover. After all, companies with an annual turnover of less than € 100,000 already employ 1.2 million people. Even if not all of these jobs will be lost (because some of these businesses are likely to be economically non-independent legal entities) and even if one third of the jobs are retained, the loss of around 850,000 jobs can be expected, which should roughly represent the lower limit of the expected employment losses. Assuming that the crisis effects on businesses will gradually become more severe with higher annual sales, the upper limit of job losses is a good 1.6 million. This number is of course only a first rough estimate.

The stability of the portfolio and investment power of Mittelstand businesses will be strengthened by the measures put into place over the past weeks until 26th March 2020. The government should examine graduation of its support, depending on how strongly the respective sectors are affected by the crisis. In scenario 2, the measures already taken would have to be extended or adjusted and/or supplemented, if necessary.

Furthermore, the suspension of the obligation to file for insolvency also protects existing companies. The insolvency law also allows so-called protective umbrella procedures with 3-month payment of the insolvency compensation to be used for personnel costs, which is provided by the Federal Employment Agency and financed from funds financed by regularly employer’s contributions to the Agency. Insolvency compensation does not have to be paid back. In the long term, it could, therefore, make it easier to kick-start the company's activities, for example, because it may enable necessary reinvestments. In the case of company pension entitlements, it is difficult to reach an agreement with the Pension Insurance Association (Pensionssicherungsverein). Moreover, the introduction of the reorganisation procedure before insolvency, planned under the new EU directive, could be brought forward. Tried and tested measures such as "round tables" of KfW and the chambers of commerce work in a similar way.

**SECURING THE INCOME OF THE SELF-EMPLOYED**

The income replacement benefit under the Protection against Infection Act and, to a lesser extent, unemployment benefits II benefits contribute to stabilising the household incomes of self-employed and solo entrepreneurs. They also serve to ensure payment of their health insurance contributions. However, payments under the Protection against Infection Act are only suitable for improving short-term liquidity if they can be made quickly. Fast processing of disbursements is the responsibility of the federal states.

Basic income provision: A first rough estimation by the IfM Bonn that considers solo entrepreneurs in sectors confronted with a huge contraction in demand, and takes also the assets of the households the self-employed belongs to into consideration, shows that up to 300 000 self-employed persons could be eligible to unemployment benefits II. Some of these could already be among the 70 000 unemployment benefits II-Community of dependence (Bedarfsgemeinschaft) with a self-employed household member.

In the past, basic income support has basically proved its worth as an instrument for overcoming short-term business crises resulting in unemployment. However, it should be remembered that this instrument has not been designed for the current extreme situation. Accordingly, recourse to the assistance is linked to conditions that must be relaxed in the current situation, which, according to the current state of knowledge, is also envisaged with regard to the mandatory asset audit. From IfM's point of view, in the current Corona crisis, it does not seem appropriate to link the granting of benefits to the priority depletion of assets.
Of the current recipients coming from self-employment, more than a quarter had to use accumulated assets before receiving unemployment benefits II. Necessary business assets are excluded from this, but the exemption is sometimes interpreted quite restrictively by the job centres. Unemployment benefits II is granted based on an income forecast for the next six months. On the other hand, only expenses incurred during this period of approval are recognised (depreciation, therefore, has no income-reducing effect) and must be assessed by the respective Job Centre as operationally necessary, unavoidable and appropriate.

**RECOMMENDATIONS ON BASIC INCOME PROVISION FOR SOLO ENTREPRENEURS AND SELFEMPLOYED PERSONS:**

- The asset audit, which has now been considerably simplified for (currently) up to six months, is to be welcomed. However, a general renunciation of the asset audit is problematic from a regulatory point of view, as it would be inappropriate to support high net worth households in the event of short-term losses.
- A simplified income forecast for only 2 months (instead of the 6-month average) and a (provisional) renunciation of measures to reduce the fixed costs of living (e.g. the obligation to move houses or to change tariffs in the private health insurance).
- Basic income support is designed as assistance at the individual level to ensure a minimum livelihood for the so-called household community in need (Bedarfsgemeinschaft). It does not constitute liquidity support for the business. The income transfers for solo entrepreneurs and micro enterprises provided by the federal government thus has a more comprehensive effect (some cities also pay a lump sum of, e.g. 2000 Euros to self-employed persons).

**APPRENTICESHIP IN MITTELSTAND BUSINESSES**

In scenario 1, with the exception of specific sectors such as the hotel and restaurant industry, IfM Bonn expects rather small effects on the willingness of enterprises to provide apprenticeships. The general difficulties in finding good apprentices are already too large. In scenario 2, the propensity to provide apprenticeships could decline further, particularly among micro enterprises.

**START-UP ACTIVITIES**

Start-up activity will initially decline - especially in those sectors where demand is slumping due to the crisis. In addition, the current border restrictions resp. shutdown make it difficult or impossible for people from abroad that are interested in setting up a company to enter the country. In 2019, start-up activity was stable in the commercial sector, which still accounts for the vast majority of start-ups. This number is expected to decline in 2020, even without the consequences of the corona pandemic (partly due to the reintroduction of the master craftsman requirement in a number of trades). In the case of many (chambered) liberal professions (tax consultants, lawyers, doctors, veterinarians, architects, engineers), a decline in the propensity to set up a business is not to be expected.

The extent to which start-up activities will decline depends on the duration of the acute crisis.

- If scenario 1 remains roughly the same, many of the planned start-up projects will undoubtedly be implemented with a time delay.
- For scenario 2 it is unclear whether the reactions to scenario 1 will only be intensified. It is possible that start-ups will again be used more as an alternative to (expected) unemployment; this could in turn have an
impact on their long-term employment effects and growth prospects. In any case, in the medium term (after the acute crisis has abated) a temporary increase in the number of start-ups can certainly be expected again.

- In general, more start-ups with IT-relevant business concepts or digitizable offers can be expected, even if the necessary immigration of skilled workers will be more challenging to realize for the time being.

- The corona crisis will generally reduce the survival rates of newly created companies. There will be differences depending on the sector, possibly less oriented towards old survival patterns but more towards the crisis-related slump in demand. So far, about 78% of all start-ups were active on the market after one year (measured against the year of foundation 2012), and 40% after five years. This differs, however, according to the size of the company at the time of its foundation (lower for start-ups without employees) and according to the economic sector (below average in transport, motor vehicle trade, art/entertainment/recreation, hotels and restaurants).

DATA BASIS

- Stock of enterprises and survival rates: Statistical Business Register. Enterprises with at least one employee subject to social security contributions, and/or taxable turnover of more than 17 500 Euros. That is, micro enterprises with lower turnover (i.e. solo self-employed) are not fully covered

- Self-employed stock: extrapolations of the German Microcensus (seasonal selfemployed under-recorded)

- Business registration statistics as a basis for the business start-ups and liquidation statistics of the IfM Bonn, data from the tax authorities of the federal states for the freelance start-up statistics (data for 2019 beginning of April 2020)

- Equity capital ratios and development according to the German Bundesbank, supplemented by information from the German Savings Banks Association

- Self-employed persons in basic income support according to the Panel "Labour Market and Social Security" (PASS) of the Institute for Employment Research (IAB) Nuremberg and statistics of the Federal Employment Agency

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THE IMPACT OF CORONAVIRUS ON CHINA’s SMEs:
FINDING FROM THE ENTERPRISE SURVEY FOR INNOVATION AND ENTREPRENEURSHIP IN CHINA

ABSTRACT

Since the coronavirus outbreak began in January, Chinese business activity has been severely slowed, affecting China’s position in the global industrial supply chain. The Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) launched a survey on the “condition of micro, small and medium-sized enterprises (SMEs) amidst the coronavirus outbreak.” The paper presents the main findings of the survey.

Keywords: China’s SMEs, enterprise survey, sector specific recommendations, Center for Global Development

JEL Classification: O12, L26

Our surveyors then conducted follow-up interviews with a representative sample of private entrepreneurs from a database maintained over the past three years, asking about the resumption of production as well the different challenges enterprises face. Our findings include:

- 80 percent of surveyed firms had not resumed operations at the time of the survey, 10 February 2020, and 40 percent could not determine a timeframe for resumption;
- 20 percent of surveyed firms will be unable to last beyond a month on a cash flow basis, and 64 percent beyond three months, presenting a dire picture for SME bankruptcies under an extended epidemic scenario;
- Barriers to business operations vary along the supply chain, with upstream firms mainly affected by labor shortages, while downstream firms face more serious challenges related to supply chains and consumer demand; and
- Policies aimed at work resumption should consider the characteristics of each industry and avoid a one-size-fits-all approach.

This note is one of two that explore the impact of the coronavirus on SME production in China, drawing on ESIEC survey data and interviews. The second note considers whether SMEs can resume production without compromising epidemic control measures.
SURVEY RESULTS

Based on our survey data, we found that the impacts experienced by upstream and downstream firms were not identical under coronavirus conditions, reflecting their different positions in the industrial supply chain. While enterprises downstream in the industrial chain directly provide goods to consumers, upstream enterprises provide intermediate goods required by those downstream actors. In general, upstream enterprises enjoy the advantage of economies of scale. They can also rely on the capital structure to form large enterprises. In contrast, downstream enterprises consist mostly of labor-intensive, micro, small, and medium-sized firms.

BOX 1. THE ESIEC AND SURVEY METHODOLOGY

ESIEC is a field survey of Chinese private enterprises conducted by the Center for Enterprise Research of Peking University over three consecutive years (2017, 2018, and 2019). Based on a random sampling of enterprises with business registration, the survey previously interviewed nearly 10,000 new private enterprises in seven provinces from 2010 to 2017, collecting information such as start-up history and business operations. Following the coronavirus outbreak, the ESIEC Project Alliance (formed by Peking University, Central University of Finance and Economics, Harbin Institute of Technology - Shenzhen Campus, Guangdong University of Foreign Studies, and Shanghai University of International Business and Economics) conducted a special survey on the survival of small, medium, and micro enterprises under coronavirus conditions. A total of 2,668 samples were collected (including 2,459 samples with industrial information). As shown in Figure 1, the industry distribution of the collected samples is about the same as that of the total data. At the industry level, these samples are to reasonably representative of small, medium, and micro enterprises in China.

Figure 1. Industry Distribution of the Survey and Total Data

Note: Authors’ calculations based on survey and business registration data
Upstream entrepreneurs hold different points of view regarding the impacts of the novel coronavirus outbreak. In short, they believe that the impacts of the outbreak will be relatively small in the long run. The biggest issue for them currently is labor shortages. In contrast, entrepreneurs in downstream industries face declining consumer demand as well as shortages of raw materials caused by disruptions in the supply chain. And as with upstream enterprises, they also are experiencing shortages in the supply of labor.

As shown in Figure 2, as of 10 February 2020, an average of 80 percent of enterprises still had not resumed operations, while the level of work resumption in business services was slightly higher at 30 percent. A possible reason for this difference is the fact that the operations of the business services sector can be conducted online, and industries such as IT, logistics, and scientific research have become the foundation of social operations following the outbreak. Meanwhile, the heavy industry and residential services sectors are the most pessimistic about work resumption. Among those that have yet to resume work, 40 percent currently cannot determine the timeframe for eventual resumption. Among those that can determine this timeframe, over 50 percent of entrepreneurs feel that they will not resume work within two weeks (that is, late February 2020). Overall, the work resumption outlook is grim.

Figure 2. Work Resumption Situation, by Sector

Note: Authors’ calculations based on survey data. Vertical lines in the bar chart represent 95 percent confidence intervals. If vertical lines in a bar chart do not match one another, this means that the average values of the two groups differ at the 95 percent significance level.

An important reason that enterprises cannot resume work is that employees are unable to return to work in a timely manner, a major impact. As shown in Figure 3, the percentage of employees unable to return to work in heavy industry enterprises is the highest, at nearly 30 percent. At the same time, among entrepreneurs in both light and heavy industries, concern over temporary labor shortages is at its highest, at 60 percent and 55 percent, respectively. Light industry is often labor-intensive and relies heavily on its workforce. It also has a high proportion of foreign workers. For these industries, the most severe issue is the current labor shortage. Although the residential services sector has been directly hit by the coronavirus
outbreak, only 30 percent of entrepreneurs in this sector saw this shortage as an issue primarily because they are usually small or self-employed and feature a high proportion of local employees.

**Figure 3. Labor Situation, by Sector**

Note: Authors’ calculations based on survey data. Vertical lines in the bar chart represent 95 percent confidence intervals. If vertical lines in a bar chart do not match one another, this means that the average values of the two groups differ at the 95 percent significance level.

Under conditions of economic stagnation, enterprises’ inability to resume work poses a major challenge and places significant stress on their cash flow. As enterprises remain responsible for fixed costs such as wages, rents, and taxes, they have no choice but to declare bankruptcy once their cash flow is depleted. In the coronavirus context, 20 percent of enterprises will be unable to last beyond a month with their current cash flow, while 64 percent will be unable to last beyond three months. In terms of cost pressures, the most critical issue facing the business services and light industry sectors is wage costs. As shown in Figure 4, as wages in the business services sector are comparatively high, over 60 percent of enterprises in that sector believe that current wages are the biggest cost pressure. Meanwhile, over 20 percent of business services enterprises are considering laying off workers, with the light industry sector in second place. As most of these enterprises depend heavily on their labor force, wages are an important component of their costs. In contrast, wage pressure in the heavy industry and residential services sectors are more modest, at less than 50 percent each. The percentage of these enterprises considering laying off personnel is also relatively small.

For enterprises engaged in economic activities that rely on both upstream raw materials and downstream demand, economic stagnation will be transmitted down the industrial chain. At the upstream end, the light industry sector currently faces the most severe issue of shortages of raw materials, with nearly 70 percent of enterprises in that sector pointing to that problem. In contrast, in the services sector, less than 40 percent of entrepreneurs face similar shortages. As shown in Figure 5, on the demand side, the light industry, business services, and residential services sectors have been directly hit by the outbreak, resulting in weak consumer demand, with over 50 percent of entrepreneurs citing declining orders. At the other end of the industrial chain, the heavy industry sector has been hit less hard because raw materials often originate
from state-owned enterprises with large resources, and demand comes from orders from the light industry sector, which is currently operating in an urgent production resumption mode.

**Figure 4. Cost Pressures, by Sector**

![Figure 4: Cost Pressures, by Sector](image)

Note: Authors’ calculations based on survey data. Vertical lines in the bar chart represent 95 percent confidence intervals. If vertical lines in a bar chart do not match one another, this means that the average values of the two groups differ at the 95 percent significance level.

Are the repercussions of the outbreak for business operations short- or long-term? We surveyed a large number of entrepreneurs on their predictions for total revenues and costs for all of 2020 relative to 2019. As shown in Figure 6, residential services entrepreneurs believe that the heaviest impact will be on operating income, with an average predicted decline of over 8 percent, while the business services sector holds a somewhat more optimistic view for the longer term, with a predicted decline of no more than 6 percent. As regards raw materials, the light industry sector expresses concerns over rising costs and believes that the estimated cost of raw materials will soar by about 7 percent. Finally, it is worth noting that entrepreneurs involved in exports cite a more significant concern, predicting that the impact of the outbreak on their activities may surpass 10 percent.
Figure 5. Upstream and Downstream Pressures in the Industrial Chain, by Sector

Note: Authors’ calculations based on survey data. Vertical lines in the bar chart represent 95 percent confidence intervals. If vertical lines in a bar chart do not match one another, this means that the average values of the two groups differ at the 95 percent significance level.

Figure 6. Prediction of Medium- to Long-Term Impacts of Outbreak, by Sector
Note: Authors’ calculations based on survey data. Vertical lines in the bar chart represent 95 percent confidence intervals. If vertical lines in a bar chart do not match one another, this means that the average values of the two groups differ at the 95 percent significance level.

Based on the data analysis presented above, we can deduce that the light industry sector faces the biggest challenges. Not only does it face disruptions in the industrial chain, but it has also been hit hard by shortages of raw materials as well as soaring prices. In addition, it has had to deal with labor shortages. On the consumer demand side, orders have also been decreasing. In particular, for light industry enterprises involved in exports, the decline in orders arising from the epidemic surpasses 10 percent. Meanwhile, the main issue facing the heavy industry sector is the labor shortage. If the epidemic does not spread widely and employees are able to resume work following the outbreak, the impact on the heavy industry sector will be comparatively small. For their part, business services of ten have modern ways of operating their businesses, including the important role played by Internet Plus in the context of coronavirus, which has raised demand for business services. If the cash flow of business services enterprises can be ascertained and wage costs such as social security contributions can be reduced, recovery could be relatively fast. Finally, the residential services sector will be directly affected by weak consumer demand as a majority of problems will originate as part of declining demand. As the residential services sector consists mostly of sole proprietors and small enterprises, the issue of labor shortage is not apparent. However, the issue of rents creates the main cost pressure.

When we asked entrepreneurs to list the two supportive policies they think are most needed, it became apparent that the policies required by entrepreneurs differ in importance across sectors, and directly relate to the specific problems each faces. As shown in Figure 7, over 70 percent of enterprises in the residential services sector would require rental relief, while only 40 percent of entrepreneurs in the heavy industry sector believe that rent reductions would be effective. In fact, over 40 percent of heavy industry enterprises would prefer tax rebates instead. For these enterprises, a reduction in value-added tax (VAT) would be a more effective relief measure. For their part, enterprises in the light industry and business services sectors face increased wage pressure. Consequently, 30 percent of these entrepreneurs wish for a rebate in social security contributions to ease the cash flow pressure arising from wage costs. In comparison with asset-light sectors such as residential services, financing support is more important for heavy industry enterprises.

**Figure 7. Support Policies Entrepreneurs Consider Most Effective, by Sector**
SECTOR-SPECIFIC RECOMMENDATIONS

Given limited public resources, we recommend that the Chinese government assist enterprises in resuming work and production as soon as possible. Supportive policies should be tailored to the unique characteristics of each sector. For example:

- The light industry sector is most in need of support, in particular those enterprises involved in exports. By introducing support for the full industrial chain, and rebates in social security contributions, the government can help enterprises to quickly resume operations.

- To assist the heavy industry sector, the government should roll out region-specific epidemic control measures. Many medium- and large-sized heavy enterprises have their own dormitories. They should take responsibility for organizing production while keeping workers safe within their perimeters.

- In the business services sector, as the long-term impact of the outbreak will likely be relatively small, the government should continue to provide medium- to long-term loans to avoid disrupting cash flows.

Although the residential services sector has been hit by the direct impact of weak demand, the need for government support should be relatively limited. Rent relief is identified by the residential services sector as the most important supportive policy.

Despite more than a dozen supportive policies unveiled by various ministries and commissions to help enterprises overcome the epidemic, most private entrepreneurs lack a clear understanding of these policies and have no idea how to make proper use of them. Supportive policies should take into account differences across sectors to be more relevant to their specific needs; they should also be more transparent if they are to deliver subsidies directly to the private entrepreneurs they aim to help overcome the crisis.

The Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) is a key project of the Institute of Social Science Surveys of Peking University. It is conducted by the Center for Enterprise Research of Peking University.
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THE IMPACT OF COVID-19 ON ITALIAN SMEs

ABSTRACT
This article was published by Studio Mazzeschi on Medium.com for information purpose and it wasn’t written for academic purpose.”

Keywords: Italian SMEs, impact of COVID-19 on Italian SMEs, Italian Government measures

JEL Classification: I1, L26, L60

In Italy, the issue of the new coronavirus has dramatically worsened since late February 2020. Initially, the spread of this infectious disease has been revealed in Lodi (a region situated from central-southern Lombardy). Since then, the Italian government has started taking measures in order to stop its spread, yet it seems that such measures are not working well or are not implemented in the right manner, as we can see on this days that the number of infected cases exceeded the 74,000 and the number of deaths are more than 10,000 (according to the data of the Italian Ministry of Health and Welfare on 30 March 2020).

MEASURES TAKEN BY THE ITALIAN GOVERNMENT TO STOP FURTHER SPREAD OF COVID-19

There are two important measures that the government has taken so far. The main measure that the Italian government has taken in order to face this problem has been a “lockdown”. The first lockdown was implemented at Codogno, the place where Patient One was identified, (local lockdown); the second lockdown was announced on 8 March 2020, which concerned basically Northern Italy (regional lockdown), and finally the third lockdown, which concerned the whole Italian territory (national lockdown), was activated since 10 March 2020. The general rule of this lockdown is that people are allowed to be outside their home only in cases of: work, health issues or necessities.

The second important measure, which is also related to the above, has been the closure of non-essential business activities. So, what business activities are allowed? On 25 March 2020, a list of business activities has been published by the Ministry of Economic Development. The activities listed in this document are classified as essential activities that are allowed to stay opened. Such activities are: agricultural crops and production of animal products, fishing and aquaculture, coal mining, extraction of crude oil and natural gas, food industry, manufacture of technical and industrial textile articles, manufacture of non-woven fabrics and articles made of it (excluding clothing), production of overalls, uniforms and other work clothes, manufacture of wooden packaging, and so on (for an exhaustive list, please visit the website of the Ministry of Economic Development).

A key point of this list is that the government hasn’t only identified the type of businesses that can stay opened, but it also has identified the specific industry code (called Codice Ateco) so that any misunderstandings are avoided. Every Italian company has at least one industry code registered in each company’s certificate of incorporation, so when considering whether one’s company can be opened or not, the answer will depend on what industry code (or codes) applies to each company.

1 Mazzeschi Srl (www.mazzeschi.it), an Italian law firm specialized in Commercial and Corporate law, Immigration and Citizenship.
These measures can be considered very drastic ones from every point of view, because by limiting so much people’s freedom of movement and even binding the closure of non-essential business activities, it was very clear that this would cause serious economic damage to the country. However, seeing the increasing numbers of infection and deaths, it is also understandable that Italy hasn’t had other options.

ITALIAN SMEs AND THE IMPACT OF COVID-19

The above-mentioned measures caused a huge anxiety to all Italian companies, yet specially to SMEs mainly for three reasons: great decrease of sales, no enough working capital and no enough supply. It is very difficult for SMEs to survive for long time (for few months) in such circumstances.

In fact, in order to understand the current scenario, “Confindustria” (General Confederation of Italian Industry) has carried out a survey with 4000 Italian companies and analysed/evaluated the impact of the Covid-19 in the business.

Generally speaking, 67% of respondents indicated that the spread of the Covid-19 had affected their business, yet, the regions of Lombardy and Veneto had higher average, as the 71% indicated their concern on how it affected their business.

If we have a closer look by industries, 99% of industries related to tourism, food and transportation reported negative effects; and about 62% of manufactures (yet, approximately 76% for clothing and 71% for furniture) reported the same.

IS ITALIAN GOVERNMENT IMPLEMENTING MEASURES TO PROTECTS SMEs?

The answer is “yes” (however, this does not mean that it’s enough). There have been announced some measures either at national or regional level.

The first and most important one so far (at national level) is the State aid that consists on EUR 350 billion to boost the economy and support business and workers, employees, self-employed professionals as well as the productive sectors of the country affected by the Covid-19 emergency.

Part of this aid includes the Italian State guarantee supporting a debt moratorium from banks to SMEs affected by the coronavirus outbreak (this State aid was approved by the Commission on 19 March 2020, under the State aid Temporary Framework to support the economy in the context of the Covid-19 outbreak). Basically, it includes “the postponement of repayments of overdraft facilities, bank advances, bullet loans mortgages and leasing operations” and it has “the objective to ensure that SMEs have liquidity to help safeguard jobs and continue their activities faced with the difficult situation caused by the coronavirus outbreak”.

Another important measure is the EUR 5 billion of social safety nets for SMEs to be used for temporally layoffs (cassa integrazione). Also, for some industries (such as tourism) there is a suspension of payments of withholdings, social security and welfare contributions and bonuses for compulsory national social security.

COVID-19 AND CORPORATE BANKRUPTCY

Unfortunately, since the coronavirus emergency has spread all around the world, we can start noticing that SMEs are the first ones suffering the crisis, forcing them to go under bankruptcy procedures. Now that it is evident that this emergency will continue for a while, the objective of future economic policy is to avoid corporate bankruptcy, by protecting, helping and boosting them, especially because SMEs are the backbone of Italy’s economy and also EU’s economy.

As already mentioned, one of the biggest problems that SMEs are facing is the lack of working capital. The Italian government has in fact started acting on the issue by adopting urgent economic measures. Despite of the fact that this issue is big and important, this is also a shallow (superficial) issue. The government needs not only to act on the current problems (such as offering liquidity to companies) but also needs to understand and to foresee the actual economic consequences that the new coronavirus will cause to the national
economy, more specifically, it needs to know whether such impact will be temporally, meaning that the national economy will be reactivated once the emergency will pass, or whether the damage may persist. These two scenarios will depend on many aspects, yet most importantly on the numbers of SMEs that will have to go under bankruptcy procedures due to Covid-19.

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CALL TO HUNGARIAN GOVERNMENT AND ENTREPRENEURS
as of 30 March 2020

ABSTRACT

The Budapest Chamber of Commerce and Industry (BCCI) unveiled a new package of proposals it has sent to the Government as well as to entrepreneurs on ways to ease the economic impact of the COVID-19 epidemic. BCCI is proposing the Government help preserve jobs and manage the rise in unemployment. Current paper presents the package of proposals consisting six points targeting the economic crises management.

Keywords: BCCI package for crises management, National Crises Management Company, National Asset Management Agency, National Factoring and Winding-up Plc, “SZÉP card” program, Hungarian Development Bank, COVID-19 corona virus epidemic

JEL Classification: H12, L16, L26

The Budapest Chamber of Commerce and Industry has recently submitted a package of proposals consisting of 6 points for the Hungarian Government, targeting economic crisis management. Following the news published by the press there were many asking us to explain the program from entrepreneurial aspects: namely, how the certain elements of the program would support businesses upon a government approval. This is to be introduced to you now. Should you have any questions after having read this letter, I kindly ask you to send them to us in an anonymous manner by filling in the relevant part of our next questionnaire to be sent to you in a couple of days. The questions collected this way will be answered collectively in a subsequent letter of ours after having processed the questionnaire.

What are the 6 proposals of BCCI about from an entrepreneurial aspect? Please, forgive me that my letter is a bit lengthier than usual, but this is the only way to explain why our proposals serve your interest. I kindly ask you to read the entire document and stand by our initiative if it has convinced you.

At the Budapest Chamber of Commerce and Industry, representing more than 40% of Hungarian partnerships, we have established a working group due to the economic crises caused by the epidemic, consisting of internal and external experts, focusing at the situation of small and medium sized enterprises. As a first step we have conducted a quick online survey among Budapest based companies in order to map the areas where the biggest help is required. We are really grateful that within a short time more than two thousand of you took the trouble to fill in our questionnaire.

By analysing the problems mentioned in the replies it can be drawn as a conclusion that as long as the epidemic related restrictions are not released financial problems represent a really urgent priority for businesses, but it is also an important conclusion that only one fifth of the existing businesses have any kind of emergency plan, i.e. deal with what they could do in the future. The first problem thus primarily requires an economic intervention on the supply side. The Hungarian Government has already taken the first
steps, but further ones will be necessary. At the same time, there are only limited possibilities for maintaining or potentially invigorating the demand side, such as imposing a complete curfew as late as possible. The measures of the Hungarian Government serve this very purpose, as, instead of the almost complete curfew introduced in many countries, only lockdown (i.e. a sort of partial curfew) has only been introduced so far (as long as the infection rate of the virus allows it), in order to maintain at least a certain part of the economy.

And now, let us have a look at the 6 proposals of BCCI, which, following some further short-term measures foreseeably being introduced in a matter of days, offers an overall solution to the crisis related issues. In our explanation it is taken into account how the certain measures could assist your businesses in surmounting the crisis.

1) The Hungarian Government should establish a National Crisis Management Holding Company (Nemzeti Válságkezelő Holding Zrt.) as soon as possible, which should be in public ownership 100%; the name could also be National Crisis Management Centre or even Fund as well.

As a first step let us explain why we recommend the establishment of a central crisis management organization, and why we think this could be a beneficial recommendation for you?

The task of this new public limited company would be efficient resource collection, then, the distribution of these resources among the specialized crisis management organization on a professional basis. The holding means the central company of a group, thus, as a result, the name of the organization to be established could also be National Crisis Management Centre or National Crisis Management Fund; the main function of this organization would be to play a central role in managing the economic crisis in Hungary. Based on our proposal the central message is to have ONE central public body, via which there would be a SINGLE channel managing all crisis management related public funds in a transparent manner. Considering businesses, we also find it important to make national crisis management subsidies and information available in a one-stop shop. There is a need for such physical and virtual client centres for enterprises, where businesses could get a fully-fledged reply about their possibilities, and where the various types of subsidies could also be offered in packages, thus suiting the requirements of entrepreneurs. There is nothing worse to imagine than representatives of small businesses, who are stressed, tired and overburdened anyway due to the crisis, wandering in the multiplayer labyrinth of bureaucracy, wasting their time and effort, just to find available subsidies. The single client-side platform of this one-stop shop could be operated by any public or private player, or even several players of the market. However, the background processes behind the client side (i.e. the ones connecting all supporting bodies) could be served by the National Crisis Management Centre or Fund. Thus, by establishing a central organization, businesses could have a clear view about the total volume of support provided by the state, and furthermore, in the macroeconomic indicators the crisis related expenses could be separated precisely, similarly to the growth of the national debt related to crisis management.

It is a special feature of holding companies that due to their size they can act with maximum efficacy as a single, united customer by representing the group, wherever required. For example, in our case the fund collection would be completed by the central national fund by issuing bonds, then, by analysing the resources need by its specialized divisions, sister companies and partners, it would efficiently distribute the funds among them. In our opinion this would be much more efficient than having various organizations or programs separately lobbying for funds at different levels of the administration. Furthermore, in the meantime the Government does not have to reallocate funds from here and there, but, by issuing bonds centrally, especially targeted and tagged for crisis management, they could manage the provision of funds. After having established the National Crisis Management Centre or Fund and vested it with the necessary licences, based on our proposal there would be a clear administrative channel and decision-making centre supported by professional analyses, where the various business development organizations and programs could apply for national crisis management funds and resources. Then, in the course of their crisis management operation the performance of these bodies could be consistently monitored and
compared with each other, and the already existing funds and resources could be redirected towards the more efficiently operating bodies by quick and simple decisions.

2) Following the establishment of the National Crisis Management Centre or Fund it would issue bonds in the volume of HUF 1000 billion with state guarantee and 0% interest rate, which would be purchased by the Central Bank of Hungary.

The feedback received from entrepreneurs clearly shows that in Hungary, similarly to the majority of Western countries, the government needs to spend crisis management resources in a magnitude of certain percent of the GDP if real results are targeted. Thus, in the first round we propose to allocate 2% of the Hungarian GDP to the program (this is how, in round figures, the HUF 1000 bn could be achieved), which could later be flexibly expanded (see point 6). And why do we recommend the Central Bank of Hungary as purchaser of the bonds? Because this is how the cheapest - and interest-free - resources could be provided.

3) The National Crisis Management Centre or Fund would establish crisis management sister companies that could be capitalized from the amount received from the bond issue.

In our proposal sent to the Government we proposed altogether four new specialized crisis management organizations. It needs to be highlighted that our initial idea was not based on organizations, but on the feedback received from entrepreneurs; this is how we defined certain groups of problems, and later did we make proposals for organizations that could tackle these issues; these organizations could be formed in a flexible manner so that they could fit the already existing business development company structure of the Hungarian state and the market. Thus, for example providing liquidity is an important task, this is why the National Factoring and Winding-up Private Limited Company (Nemzeti Faktoring és Követeléskezelő Zrt.) was integrated to our proposal, as this would be the company buying up the unexpired (factoring related) and outstanding (winding-up related) trade receivables of SMEs facing with liquidity issues due to the crisis.

4) Proposals for the specialized crisis management sister companies and their functions

Let us have a look at how this huge amount, this HUF 1000 billion could provide a quick fix to your liquidity issues? Based on this, as a first step it is always the possibilities of internal financing is are to be considered. What belongs here in the first round are own reserves, such as the cash balances, bank account balances and financial fixed assets of enterprises (or their owners). This is why it is highly important from the aspects of crisis-resistance how much you set aside for unforeseen expenses, that is how much reserves you have that can be quickly deployed. Unfortunately, this is something that cannot be changed subsequently, but as a lessor for the future it is good to remember the saying that it often happened that “5 minutes before the problem everything was alright”, and this is the mindset to be applied when setting up reserves.

- National Asset Management Agency (Plc.): buying up the superfluous and redundant assets of small and medium sized enterprises

However, where the program proposed by us could really count is the amount of money they get for their savings held in financial fixed assets when they decide to sell them. Based on our proposal the National Crisis Management Centre or Fund should intervene into market procedures so that you could sell these assets at a price that (almost) equals with the pre-crisis one. This would be one of the important roles of the National Asset Management Plc. recommended by us, which would be capitalized from the HUF 1000 bn fund of the National Crisis Management Centre or Fund, so that it could buy up such assets from you without any upper limit, thus giving you cash, practically without any property loss.
Another function of the National Asset Management Plc. would be to **purchase those stocks and productive assets that have become unnecessary or redundant for the enterprises temporarily or for good** because of the crisis, also at a pre-crisis market price. Enterprises that this way could sell their assets quickly and at a good price would also be provided the right to repurchase at the original selling price for the post crisis times, facilitated with an instalment plan. Let me illustrate this with an example. There is a small business working with passenger carriage; it has 3 buses. This is pretty frequent in the case of self-employing drivers, as this way by having a “pop-in” driver pool of 4-5 people they could accept more orders. They perform the work in the cases of better trips, or journeys that require more attention, but the less preferable or more simple ones are given to some other driver who is at a loose end. However, now with a market that came to a standstill this entrepreneur has no income at all, while all his property is embodied in his buses, which might even be burdened by loan. What could the entrepreneur do in this situation? Pretty obviously the superfluous buses could only be sold at a very reduced price in the market, thus representing a significant property loss for the entrepreneur. The other option is that he somehow survives this crisis period without any orders by using up other resources, while he stores his buses most probably in an inefficient manner, as a consequence thereof their impairment would quicken up.

In our proposal the national asset manager would purchase the bus (or, depending on the decision of the entrepreneur two or even all three buses) at or close to a pre-crisis market price, and store it (them) appropriately, whereas the entrepreneur would be given a significant amount of money. Then, following the crisis when demand bounces back, the entrepreneur, by exercising his right to repurchase could re-expand his fleet by paying the necessary instalments adjusted to the increasing demand. And this is only a case study from a small business; the same internal financing could be applied to fixed, permanently installed machinery as well that are temporary out of use for the lack or orders; here only the ownership of the machine would be transferred, the equipment could even remain at their original location. Then, as orders start to arrive again, the entrepreneur could re-purchase his equipment by paying instalments, and could put the machines into operation again. Based on our calculations this proposal of ours could mean tens or even hundreds of billions of HUF additional liquidity and the retention of property for entrepreneurs if it is approved.

- **National Factoring and Winding-up Private Limited Company**: buying up unexpired (factoring related) and outstanding (winding-up related) trade receivables

The next internal financing option is **the realization of your trade receivables as soon as possible**. As there are many customers who do not pay immediately when receiving the invoice, but, as you can experience it, they usually pay with terms of 30-60 days, which, in special cases could be even longer. In such hard times 30 or even 15 days could be decisive in maintaining liquidity, so we made a proposal for establishing a **National Factoring and Winding-up Private Limited Company** that would also get the necessary resources from the HUF 1000 bn fund of the National Crisis Management Centre or Fund to buy your receivables even on the very day when the customer receives the invoice and possibly at 100% (!) of the invoice value without any recourse claim (!), thus quickly providing money to your enterprise.

Unfortunately, it might have happened even before the crisis that although your customers received and accepted your invoice, they failed to pay the relevant money upon deadline. In a normal market environment these trading accounts receivables could only be sold as outstanding liabilities, at a fraction of their original value. Now, due to the crisis unfortunately it might become widespread that your customers are unable to pay on schedule, even without any fault on their part. These outstanding liabilities would most probably be impossible to sell, not even at a fraction of the original price, because of the increasing bankruptcy risk currently characterizing the market. The National Factoring and Winding-up Private Limited Company would offer a solution to this issue as well because it would buy up such account receivables from small sized enterprises operating in a field severely hit by the crisis at a 100% value (!), and again without any recourse claim (!). Of course in the case of industry lesser hit by the crisis the National Factoring and Winding-up Private Limited Company would buy these outstanding receivables with an ever increasing
discount, but based on our proposal even enterprises operating in industries that could be called as winners of the crisis could sell such receivables at least 80% of the invoice value, and as a result, they could get rid of the lengthy collection efforts, while in the meantime they could spend this quickly received money on financing everything they might need to meet their increasing demand. The National Factoring and Winding-up Private Limited Company could also serve your enterprise in another way. If it is your company that, by no fault of its, is unable to pay its invoices on schedule, and in the meantime they are purchased from the supplier by the new national company, then upon the call for payment you receive from the National Factoring and Winding-up Private Limited Company in reply you can ask to have your debt rescheduled interest-free to the post crisis times. By establishing this new public body it is not only the client side where they can immediately get their income, but they can see benefits on the expense side as well, because interest-free loan is provided almost automatically so that they could pay their post economic crisis related material costs, which can even be done in instalments.

National Crisis Management Venture Capital Plc.: investment into businesses that are facing with capital shortfalls, but will most probably be viable following the crisis

The National Crisis Management Venture Capital Plc. would basically function with a focus on investing into businesses that are facing with capital shortfalls, but will most probably be viable following the crisis. Those familiar with the start-up world can often hear the term venture capital. Perhaps it is lesser known that venture capital does not only exist in the world of gazelles, i.e. start-ups with huge growth potential, but also in the areas of financing M&As, that is mergers and acquisitions, and even the so-called “turnaround” financing might also an investment target for venture capital when the ‘fresh’ capital helps companies temporarily fighting with business difficulties in regaining profitability; this is something to be tackled in connection with many enterprises, due to the crisis. It typically accompanies an economic crisis that certain businesses decide on a merger or that the ones managing the crisis better give an acquisition offer for their competitors that have gone bankrupt during the crisis. Unfortunately the Government will not be able to save every single business for sure, thus based on our proposal besides “turnaround” type investments public venture capital shall also be applied in order to assist our crisis resistant enterprises, so that by acquiring their bankrupt competitors the business knowledge accumulated in the bankrupt company would not get lost. Here another option could be the involvement of private venture capital companies. It could be a viable solution that the National Crisis Management Venture Capital Fund would be established as a division of the National Crisis Management Plc., and this would be capitalized from the above mentioned HUF 1000 bn fund, and the already existing public and private venture capital companies would channel the venture capital from the fund to the businesses with their already functioning apparatus.

National Business Development Plc.: for a successful generational renewal it is necessary to have adequate development resources, the establishment of the goodwill, mentorship and consultation services

In the field of capital financing our proposal for a new body to be established is the National Business Development Plc. in order to tackle an already existing, but most probably significantly growing problem. As a result of the democratic transition there was an en masse start of small businesses in the 1990s, and these were mostly established by people in their 30s, 40s. They represent the overwhelming majority now of the owners and managers of SMEs, even though they are in their 60s, 70s. This is exactly the age group most endangered by the virus. As it has been the first such challenge for Hungarian family owned companies, compared to multi-generational Italian or Bavarian family businesses, they do not have enough experience or competence in order to successfully manage a generational renewal. Based on the experiences gained on generational renewal waves from other countries of the world even two-thirds (!) of businesses arriving at the challenge of generational renewal might fall in the test of owner and manager change unless the process is supported with private or public financing and consultancy. For a successful generational renewal necessary and adequate development resources, the establishment of the goodwill, mentorship and consultation services
would be provided by this new public body. Here again other structural implementational methods might also arise, different from the one included in the original proposal of BCCE. The task might also be solved in a way, that if the new public venture capital company introduced in the previous point or the already existing public and private venture capital companies provide the resources necessary for the transactions, and they do so from the National Crisis Management Centre or Fund, while a new public body is only established for reasons of consultancy, mentorship and coaching, or possibly these services might also be provided by already existing market players, based on the order and financing of the National Crisis Management Centre or Fund.

5) Capitalizing already existing public companies and programs from the money collected from bond issue

- The so-called ‘SZÉP card’ Program: fast domestic consumer generation following the epidemic by applying strict utilization rules

After having introduced our proposals regarding the supply side, hereby I also want to inform you about our proposals targeting the assistance of the demand side of Hungarian businesses. Here we have investigated two areas. The first targets a quick increase in the consumption of Hungarian citizens from the very first moment following the release of the epidemic related restrictions. For this our experts recommend primarily the utilization of the extremely successful so-called SZÉP-card program. Based on our figures there are approximately 1.7 million SZÉP-cards used in Hungary, and the number of card owners could easily and quickly be increased by the current three issuers. If, as a result of the benefits rooted at our proposal there was a demand to double the number of cards, then with the involvement of the other Hungarian commercial banks this demand could also be easily met.

Based on our recommendation in order to quickly generate domestic consumption benefits uploaded to the SZÉP-card should be completely tax-free up to HUF 100 thousand per month per employee, but the utilization rules of this income should be tightened up, so that this money would be quickly spent. One possible solution is if the money uploaded to the card can only be used for maximum 3 months, and then it is lost. Another possible, less drastic solution could be that from the amount remaining from the uploaded sum to the card 10% of dues are deducted after 30 days, then further 20% is deducted from the remaining amount after 60 days, then further 30% is deducted from the remaining amount after 90 days, and so on, and so forth, as long as the amount dries up. We also recommend to extend the range of usage of the SZÉP-card to such crisis-hit industries where the card cannot be used currently (such as photography, services in the beauty industry, taxi, au-pair services, gardening, retail industry for non-food or non-drugstore type of products, etc.). These steps can be implemented even without mobilising external funds to the program.

In the case of the SZÉP-card program external fund mobilization would only be necessary from the HUF 1000 billion fund if, based on our proposal companies in the crisis-hit industries could draw 15-20% of their income payments via SZÉP-card as wage subsidies from the National Crisis Management Centre or Fund. (In the early months of economic recovery this wage subsidy percentage might even start at 50%.) Our SZÉP-card related proposals might be beneficial for you in various forms. On the one hand, they would generate significant turnover growth for businesses dealing with retail services, and, on the other hand, they would also mean real wage subsidies for those active in the crisis-hit industries, and thirdly, they could make the first HUF 100 thousand of every single payment over the minimum wage and the guaranteed minimum wage tax free. For this the Government could enact a legislation stating that the amount of the complete wage above the minimum wage or the guaranteed minimum wage, depending on the scope of activities, as per the employment contract in force could also be payable through SZÉP-card.

- Hungarian Export-Import Bank Plc.: to provide the necessary loan for selling internationally marketable Hungarian goods and services on foreign markets

Another proposal of ours for the demand side is related to the revealing and utilization of export opportunities: providing the necessary loan for selling internationally marketable Hungarian goods and services on foreign markets. A really similar task is performed currently really well by the Hungarian Export-Import Bank Plc.
Export-Import Bank Plc., thus, based on our proposal after having it capitalized by the National Crisis Management Centre and Fund, it is only some fine-tuning to be done, so that the operation of the bank could be aligned to the crisis related specific features.

- **Hungarian Development Bank:** crisis management of businesses, financing the investment needs rooted at the expected growth with long maturity, low-interest loans

Debt financing that is the question of loans is the topic most frequently discussed in the news. The initiative recently announced by the Central Bank of Hungary fits really well into the security purchasing program announced by the European Central Bank last Wednesday. It is highly important for enterprises that the circulation of money within the economy does not stop because of the pandemic. In order to achieve this, it is necessary to have a high number of low-interest resources, provided by the above-mentioned step of the central bank, but in order to channel it through commercial banks to the businesses two things are really vital:

1) That businesses meet the creditworthiness criteria of banks, which is unfortunately less and less true. Companies losing the majority of their customers are unable to meet the requirements of traditional credit rating system, thus even though there will be advantageous credit offerings in the market, it cannot be taken for granted that businesses in need could get them, not even if secured by a mortgage, as the crisis completely tumbles the pricing of corporate assets.

2) There should be a will to take out loans. Companies operating in industries less hit by the crisis, and thus are creditworthy, have become really careful, based on the reports; as a result, even if the interests are low, they would think twice before taking out credits.

Consequently, the steps taken by the Central Bank of Hungary are imperative, and go into the right direction, but are not enough on their own. Besides the abundance of resources provided in the capital market it is inevitable to work out preferential credit schemes, which can be taken out by you even with limited credit protection. Here the Hungarian Development Bank may play a significant role in providing background risk-bearing capacities; furthermore, the introduction of national credit guarantee provision is also a possible solution to be applied as widely as possible, where the final risk-bearer would be a separate credit guarantee fund allocated from the HUF 1000 bn resource of the National Crisis Management Centre or Fund.

We are planning to give a role to commercial banks as well in channelling the subsidized loan to the entrepreneurs, as this is the fastest way, i.e. if already existing channels are used in order to send you the preferential credits.

For the time being it cannot be foreseen whether the HUF 1000 billion would be enough, or an amount several times higher than that would be needed. This is the reason why the experts of BCCI developed a solution that represents substantial help for businesses even with its first step, but should this prove to be insufficient, by repeating the financial rounds, multiple times of the original amount could be “pumped” into the economy.

Thank you very much for your persistent attention. I do hope that I managed to answer the most important questions. Of course, our proposals above refer only to the frameworks of an economic crisis management system, so there are many details to be elaborated on that are required for its successful operation. Such an example could be the comprehensive identification of fraudsters or the ones seeking for a window for misuse in crisis management, so that the funds could be allocated among ethical, marketable and competitive Hungarian businesses. I sincerely hope that I managed to convince you of the usefulness of the BCCI’s 6 proposals and you will also stand by our initiative. Should you have any further questions, please send them to us in the manner detailed at the beginning of my letter.
COVIS-19: SME POLICY RESPONSES - Extract

ABSTRACT

This summary is developed by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE). It examines how SMEs are likely to be affected by the current coronavirus epidemic, reports on early evidence and estimates about the impact, and provides a preliminary inventory of country responses to foster SME resilience. This information paper is an extract from the OECD document as of 16 March 2020. Notes and further details in each countries see in original document.


Keywords: Impact of the coronavirus on SME sector,

JEL Classification: L10, M10, M53

OECD Secretary General Angel Gurría, in preparation for the G20 Virtual highlighted that the lockdown will directly affect sectors amounting to up to one third of GDP in the major economies. For each month of containment, there will be a loss of 2 percentage points in annual GDP growth. The tourism sector alone faces an output decrease as high as 70%. Many economies will fall into recession. This is unavoidable, as we need to continue fighting the pandemic, while at the same time increasing efforts to be able to restore economic normality as fast as possible.

The OECD latest estimates show the lockdown will directly affect sectors amounting to up to one third of GDP in the major economies. We calculate that, for each month of containment, there will be a loss of 2 percentage points in annual GDP growth. The tourism sector alone faces a decrease in output anywhere between 50% to 70% in this period. Many economies will fall into recession.

1. Background

1. According to OECD Economic Outlook Interim report March 2020, projections for annual global GDP growth for 2020 have dropped by half a percentage point to 2.4% due to the coronavirus outbreak. However, a longer lasting and more intensive coronavirus outbreak could slow global growth to 1.5%. The report underlines the importance for governments to act swiftly and decisively to overcome the coronavirus and its economic impact. Since the report’s release on 2 March, the virus has further spread, with stock exchanges responding negatively to heightened uncertainties.

2. In recent weeks, several international organisations have issued studies on aspects of the economic impact of the coronavirus epidemic. For instance, UNCTAD has calculated that the impact of the coronavirus in China has cost global value chains 50 billion USD in exports. FDI could shrink by 5-15%. The Asian Development Bank suggests an impact of between 0.1 and 0.4% of global GDP. The IMF has published a number of blogs with reflections on the expected effect and policies required. In particular, these highlight that while the drop in manufacturing is comparable to the start of the 2008 global financial crisis, this time the decline in services appears greater, reflecting the consequences of lockdowns and social distancing, especially in urban settings.

3. With few exceptions, so far limited empirical evidence is available on how the situation affects SMEs across OECD countries. Some first evidence is emerging from surveys, which suggest major disruptions in the
most affected countries and mounting concerns in others.

- Based on a survey of SMEs in February, reports on China showed that a third of SMEs only had enough cash to cover fixed expenses for a month, with another third running out within two months, putting millions of Chinese SMEs at risk. Reporting on 14 March, suggests 60% of Chinese SMEs are back in business, but now face further challenges due to reduced demand from other markets.

- A February KfW-IFO barometer in Germany on the Mittelstand suggested that so far small businesses in Germany are relatively less affected because of operating in regional supply chains. While business sentiment among SMEs in February improved by 0.8 points, business sentiment of larger firms declined by 2.4 points, reflecting the coronavirus situation. However, a new survey by DIHK of over 10,000 German companies (85% of which had less than 200 employees), released on 9 March, indicated that almost half of respondents expected a negative impact on their business in 2020, with almost one third expecting a decline in turnover of more than 10%.

- An early March survey of micro and small firms in Italy showed that 72% of the 6,000 responding firms were directly affected by the situation because of a drop in demand or problems along the supply chain and/or transport and logistics. One third of respondents estimated a decrease in revenues greater than 15%, and an additional 18% of firms estimated that decrease to be between 5-15%. The most affected firms are those in transport (98.9%) due to the demand downfall, then tourism (89.9%), fashion (79.9%), and agro-food (77.7%).

- A survey released on 25 February by Business Finland of 300 companies (80% of which are SMEs) indicated that one third of respondents anticipated a negative or very negative impact on their business in the short term, with the strongest effect felt because of restrictions to (international) travel of employees.

- On March 9, the Tokyo Shoko Research published a survey on the effects of the outbreak on firms (174 companies, mostly SMEs). Thirty-nine percent of respondents reported supply chain disruptions and 26% a decrease in orders and sales.

- In early March, the Korean Federation of SMEs published a survey of SMEs engaging in import/export. Of the 191 firms surveyed, 71.8% stated they would be affected by the outbreak, with more than half of these firms stating that they were unable to meet delivery dates due to factory closures in China.

- A survey of SMEs in Poland, published on 10 March, showed that 30% of SMEs feared a decrease in sales and worker availability in the next three months. Over one-third experienced increased costs and reduced sales, with 27.5% of respondents already encountering cash flow problems.

- On March 11, the US Institute for Supply Management published their survey results. Nearly 70% of respondents, 81% of whom have revenues of less than USD 10 million, reported supply chain disruptions, with more than 80% expecting to experience the impact of the outbreak.

- An early March survey in the UK from the Institute of Directors, whose membership is 70% SMEs, underlined the worry. One in five firms ranked the threat to their organisation from the coronavirus as “high” or “severe”. A further 43% said there was a “moderate” threat. Another UK survey by the platform Market Finance that came out on 12 March, showed that 69% of SMEs have significant cash flow problems, with more than one-third fearing that without support they would not last until Easter.

- A 13 March survey from the US National Federation of Independent Business among 300 of its 300,000 members from employers with up to 120 workers showed that 74% of small businesses say
they are not yet affected by the pandemic, while 23% say they are being negatively affected. Of those indicating they were not affected, nearly half anticipate the outbreak to negatively impact their business if the virus spreads to or within their immediate area over the next three months.

- Among the businesses that said they were being damaged, 42% reported seeing slower sales, while 39% were experiencing supply-chain disruptions. A Survey in Seattle, showed that 60% of small businesses are considering wage cuts and staffing cutbacks, while 35% said they might have to close.

4. Furthermore, various media report anecdotic evidence on the impact on SMEs. According to the US Main Street Alliance “small businesses are on the front line of the crisis”.

5. This note examines the possible effects of the current COVID-19 epidemic on SMEs, and provides a preliminary inventory of country responses with respect to SMEs. Given the rapid pace of developments, the overview of country responses is not comprehensive and in some cases includes intended policy responses that are still a work in progress, or simply at the stage of public announcements. This overview will be updated periodically.

2. Impacts on SMEs

6. There are several ways the coronavirus may affect the economy, especially SMEs, on both the supply and demand sides. On the supply side, companies could experience a reduction in the supply of labour, as workers are unwell or need to look after children or other dependents while schools are closed and movements of people are restricted. Measures to contain the disease by lockdowns and quarantines lead to further and more severe drops in capacity utilisation. Furthermore, supply chains may be interrupted leading to shortages of parts and intermediate goods.

7. On the demand side, a dramatic and sudden loss of demand and revenue for SMEs could severely affect their ability to function, and/or cause severe liquidity shortages. Furthermore, consumers may experience loss of income, fear of contagion and heightened uncertainty, which in turn reduces spending and consumption. These effects may be compounded when workers are laid off and firms are not able to pay salaries. Some sectors, such as tourism and transportation, may be particularly affected, also contributing to reduced business and consumer confidence.

8. The impact of the virus could have potential spill-overs into financial markets, with further reduced confidence and a reduction of credit.

9. These various impacts are likely to affect both larger and smaller firms. However, the effect on SMEs may be especially severe, particularly because of higher levels of vulnerability and lower resilience related to their size.

10. In all OECD countries, SMEs account for the vast majority of companies, value added and employment. However, in some regions and sectors that have felt the impacts of the situation, the prevalence of SMEs is even higher. For example, in some of the most affected regions, like Northern Italy, the significance of SMEs within the economic structure is even more critically important. Likewise, SMEs are strongly represented in sectors such as tourism and transportation, which are significantly affected by the virus and the measures taken to contain it, as well as fashion and food where short delivery times are of essence.

11. SMEs often have a more limited number of suppliers. In some cases, this may shelter them from the shock, which appears to be the case so far with German SMEs operating more in regional supply chains and who therefore are less affected by developments in Asia. In other cases, SMEs may rely on suppliers from countries and regions with more COVID-19 cases, increasing their vulnerability. Similarly, obstacles in transportation by sea, road or air may affect these SMEs. Some SMEs are particularly vulnerable to the disruption of business networks and supply chains, with connections with larger operators (e.g. MNEs) and
the outsourcing of many business services critical to their performance.

12. Businesses, including SMEs, will bear the brunt of a reduction in global demand for their products and services. This impact may particularly be felt in specific sectors such as tourism, but also amongst those SMEs catering for local markets where containment measures have been introduced.

13. SMEs may have less resilience and flexibility in dealing with the costs these shocks entail. Costs for prevention as well as requested changes in work processes, such as the shift to teleworking, may be relatively higher for SMEs given their smaller size. If production is reduced in response to the developments, the costs of underutilised labour and capital weigh greater on SMEs than larger firms. Furthermore, SMEs may find it harder to obtain information not only on measures to halt the spread of the virus, but also on possible business strategies to lighten the shock, and government initiatives available to provide support.

14. Given the limited resources of SMEs, and existing obstacles in accessing capital, the period over which SMEs can survive the shock may be more restricted than for larger firms. As the OECD Interim Outlook signals, there is a risk that otherwise solvent firms, particularly SMEs, could go bankrupt while containment measures are in force.

3. Country policy responses

15. Given the specific circumstances SMEs are currently facing, a number of countries have put measures in place to support them. While countries’ first concern is public health, increasingly measures are being introduced to mitigate the economic impact of the coronavirus on smaller businesses. Such policies take various shapes. Some countries have focused on more general policies that have the potential to cushion the blow for the economy and for all businesses. Other countries have put in place more SME-specific measures. Some initiatives aim to provide information to SMEs on how to help prevent the spread of the coronavirus, including via SME agencies or associations. Other measures aim to provide flexibility and relief for companies and workers in the reduction of working hours, temporary lay-offs and sick-leave. Some countries have introduced measures specifically aimed at the self-employed. Likewise, several countries have included financial instruments (such as tax relief, guarantees and grants) to reduce the impact of the outbreak. Various countries are taking measures regarding procurement and late payments. Furthermore, some countries have taken actions to help SMEs adopt new work processes and find new markets. Finally, some commercial banks in countries have taken steps as well, in terms of offering credit and easing conditions for loan repayment.

Source: brian m. watson @brimwats
NEW EVENTS

KEY MESSAGES OF THE CORONAVIRUS

Covid-19 has hit people and livelihoods

- Covid-19 (coronavirus) has disrupted people’s life and the global economy
- Activity has slowed dramatically in China on the back of containment measures
- Negative spillovers via tourism, supply chains, commodities, confidence are growing

The spread of coronavirus could intensify a global downturn

- Weakened by trade and political tensions, the global economy is vulnerable
- Containment measures and lower confidence would slow affected economies
- Pressure on industries with structural difficulties (autos) or that are large employers (tourism)

Governments cannot afford to wait

- Increase resources to the health sector and support the most vulnerable
- Ensure liquidity buffers for affected industries worldwide
- Coordinate health response, monetary and fiscal support across countries

Laurence Boone, OECD, 2 March 2020

OECD Secretary General Angel Gurría calls for decisive and collective action in five fronts:

1. People and workers;
2. Businesses, particularly SME;
3. Macroeconomic:mobilising the three policy levers (monetary, fiscal, and structural);
4. Trade. It is time to lift existing trade restrictions, including on imports of much needed medical supplies;
5. Developing and low-income countries. We join the call of the IMF and the WB. We should think of a Heavily Indebted Poor Countries Initiative (HIPIC) “on steroids”. We also join Canadian Prime Minister Trudeau, on his call to support the Small Island Developing States. We must learn the lessons fast. We need to “recapitalise” our health and epidemiologic systems beyond narrow cost-benefit considerations so they have the necessary resilience.

(See at https://www.oecd.org/coronavirus/en/)
THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

EXTRACT FROM

Brussels, 13.3.2020
COM(2020) 112 final

In its interim Winter Economic Forecast released on 13 February 2020, the European Commission projected subdued GDP growth in the EU and the euro area at 1.4% and 1.2% in 2020 and in 2021, respectively. Given the very limited data available at that time, this forecast incorporated a small temporary shock based on the assumption that the pandemic would be limited to China and would peak in the first quarter of 2020 thus having very limited global spillovers. The forecast, however, flagged the spread of the virus as a significant downside risk for the global and European economy.

COVID-19 is now a pandemic and the Commission services have produced new estimates of its potential economic impact. They are stylised scenarios and not a forecast. They are made by using updated assumptions and modelling techniques. It should be stressed that there is still a lot of uncertainty about the extent of the economic impact of the crisis, which inter alia will depend on the spread of the pandemic and on the capacity of public authorities to act quickly to contain the health and economic repercussions.

The base case scenario is based on two assumptions:

- it is assumed that as a pandemic, COVID-19 will have the same mortality and morbidity across Europe and the rest of the world based on the most recent estimates available. This is important: whilst the pace of the spread of the virus is uneven across Member States with Italy currently being the most affected, it is assumed that over time all Member States will be affected to the same extent.

- given the current epidemiologic trends across Member States, it is assumed that the necessary restrictions, which affect labour supply and demand in some sectors (e.g. travel, retail etc), will have a bigger impact compared to what was observed in China.

The analysis distinguishes between a series of transmission channels through which COVID-19 will affect the European economy. They include

(i) the shock resulting from China’s initial contraction in the first quarter of 2020;
(ii) the supply shock to the European and global economy resulting from the disruption of supply chains and absences from the workplace;
(iii) a demand shock to the European and global economy caused by lower consumer demand and the negative impact of uncertainty on investment plans,
(iv) and the impact of liquidity constraints for firms.

The COVID-19 crisis is estimated to have a very large detrimental economic impact on the EU and euro area. The direct impact through all channels is estimated to reduce real GDP growth in 2020 by 2.5 percentage points compared to a situation where there would be no pandemic. Given that real GDP growth was forecast to be 1.4% for the EU in 2020, this would imply it could fall to just over -1% of GDP in 2020, with a substantial but not complete rebound in 2021.
However, some of the direct impacts in 2020 can be offset by timely and effective policy action which could mitigate the negative impact on real GDP. The EU institutions and Member States are putting into place policies to mitigate the economic impact of the crisis. Policy measures will not be able to shield the EU from negative effects of the crisis coming from China, and only to a very limited extent if at all from the supply-side shock on labour. However, they can play an important role in offsetting the negative repercussions coming from lower consumer demand and from liquidity-constrained companies. Combined, those channels account for just over half of the estimated potential impact on growth so there is material scope to mitigate the economic impacts. Overall, the base case scenario is that real GDP growth in 2020 will be zero or even be substantially negative as a result of COVID-19. A coordinated economic response of EU institutions and Member States is key to mitigating the economic repercussions.

More adverse scenarios, linked to a deeper impact of the pandemic cannot be excluded.

*Graph 1. Estimated impact of the COVID-19 pandemic on the EU economy: scenario in 2020*

*Source: European Commission, March 2020.*
CORONAVIRUS: The European Union stands by it Eastern Partners

European Commission Press Release

Brussels, 30 March 2020

As part of the global response to the coronavirus outbreak, the European Commission stands by Eastern partner countries and has reallocated €140 million for the most immediate needs in Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, and Ukraine. In addition, the Commission will also redirect the use of existing instruments worth up to €700 million to help mitigate the socio-economic impact of the coronavirus crisis.

Commissioner for Neighbourhood and Enlargement Olivér Várhelyi said: “These are very difficult times not only for the EU, but for our partner countries as well. We are doing all we can to mitigate the impact of the coronavirus outbreak on human lives and livelihoods. We are responding both to the immediate needs of the health systems, as well as longer term needs to the most vulnerable groups in society and small and medium-sized enterprises, which are the backbone of the economies in the six countries.”

Responding to immediate needs

At the request of the partner countries, the Commission will respond to immediate needs by supporting the supply of medical devices and personal equipment, such as ventilators, laboratory kits, masks, goggles, gowns, and safety suits. The European Commission is working with the World Health Organisation (WHO), and is deploying €30 million to ensure these necessary supplies are jointly purchased and effectively distributed to the health systems of the six countries in the coming weeks. In addition, the funds will support national health administrations to train medical and laboratory staff and carry out awareness raising measures to the wider population.

The Commission has also made available more than €11.3 million in small grants to civil society organisations. These funds are already responding to immediate needs, through the ongoing regional “Rapid Response Mechanism”, such as supporting local schools with distance learning. By the summer,
and as part of this package, the Commission will launch the “Eastern Partnership Solidarity Programme” which will target the most affected parts of the populations through civil society support and notably sub-grants to smaller, local organisations.

**Mitigating the socio-economic impact of the outbreak**

The Commission is working closely with International Financial Institutions (IFIs) and relevant financing institutions from EU Member States as TEAM EUROPE providing a coordinated European response for the real economy, including SMEs, in particular through:

- Launching of a new support programme of €100 million to help SMEs, including self-employed and others to easily access credit and boost their businesses after the crisis;

- Facilitating, simplifying, accelerating, and reinforcing €200 million worth of existing credit lines and grants to SMEs in local currency including through its EU4Business Initiative;

- In addition, in the current crisis the EU has mobilised its major de-risking instrument the European Fund for Sustainable Development (EFSD), worth a total of €1.55 billion, with €500 million being made available for the EU’s neighbourhood. This will rapidly provide liquidity in the EU’s neighbourhood, including through working capital, trade finance, or moratoria on debt service. This support is in addition to the ongoing macro financial assistance support to partners, including Georgia, Moldova and Ukraine.

The Commission also stands ready to provide assistance through TAIEX, its peer to peer instrument, by using EU Member States expertise, experience and examples of good practices on assessing emergency preparedness response scheme and health systems.

HUNGARIAN SCHEME TO SUPPORT ECONOMY IN CORONAVIRUS OUTBREAK

The European Commission has on 08.04.2020 approved a HUF 50 billion (cc. EUR 140 million) Hungarian aid scheme to support the Hungarian economy in the context of the coronavirus outbreak. The scheme was approved under the State aid Temporary Framework adopted by the Commission on 19 March 2020, as amended on 3 April 2020.

This €140 million Hungarian scheme will support businesses which are particularly hit by the coronavirus outbreak. It aims at mitigating the economic impact of the coronavirus outbreak and will help businesses continue implementing essential investments, said Executive Vice-President Margrethe Vestager, in charge of competition policy.

THE HUNGARIAN SUPPORT MEASURE

Hungary notified to the Commission under the Temporary Framework (see at https://ec.europa.eu/commission/presscorner/detail/en/ip_20_496) a HUF 50,000 million (approximately €140 million) aid scheme to support businesses affected by the coronavirus outbreak. The scheme will be managed by the competent agency, Hungarian Investment Promotion Agency Non-Profit Ltd (HIPA Non-Profit Ltd).

The public support, which will take the form of direct grants, will be accessible to medium and large enterprises, which are particularly hit by the economic consequences of the coronavirus outbreak and which are active in certain sectors defined by Hungary.

The scheme aims at supporting companies that face difficulties due to loss of income and liquidity resulting from the economic impact of the coronavirus outbreak. In particular, it will help businesses to cover their immediate working capital or investment needs.

The Commission found that the Hungarian measure is in line with the conditions set out in the Temporary Framework. In particular:

- the support will not exceed €800 000 per company as foreseen by the Temporary Framework;
- the aid amount per company is linked to the volume of investment and market sector in which the company is active and
- the aid can be granted until 31 December 2020, while applications can be submitted until 30 November 2020.

The Commission concluded that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State, in line with Article 107(3)(b) TFEU and the conditions set out in the Temporary Framework.

On this basis, the Commission approved the measure under EU State aid rules.

Background

The Commission has adopted a Temporary Framework to enable Member States to use the full flexibility foreseen under State aid rules to support the economy in the context of the coronavirus outbreak.
outbreak. The Temporary Framework, as amended on 3 April 2020, provides for the following types of aid, which can be granted by Member States:

(i) **Direct grants, equity injections, selective tax advantages and advance payments** of up to €100,000 to a company active in the primary agricultural sector, €120,000 to a company active in the fishery and aquaculture sector and €800,000 to a company active in all other sectors to address its urgent liquidity needs. Member States can also give, up to the nominal value of €800,000 per company zero-interest loans or guarantees on loans covering 100% of the risk, except in the primary agriculture sector and in the fishery and aquaculture sector, where the limits of €100,000 and €120,000 per company respectively, apply.

(ii) **State guarantees for loans taken by companies** to ensure banks keep providing loans to the customers who need them. These state guarantees can cover up to 90% of risk on loans to help businesses cover immediate working capital and investment needs.

(iii) **Subsidised public loans to companies** with favourable interest rates to companies. These loans can help businesses cover immediate working capital and investment needs.

(iv) **Safeguards for banks that channel State aid to the real economy** that such aid is considered as direct aid to the banks’ customers, not to the banks themselves, and gives guidance on how to ensure minimal distortion of competition between banks.

(v) **Public short-term export credit insurance** for all countries, without the need for the Member State in question to demonstrate that the respective country is temporarily “non-marketable”.

(vi) **Support for coronavirus related research and development (R&D)** to address the current health crisis in the form of direct grants, repayable advances or tax advantages. A bonus may be granted for cross-border cooperation projects between Member States.

(vii) **Support for the construction and upscaling of testing facilities** to develop and test products (including vaccines, ventilators and protective clothing) useful to tackle the coronavirus outbreak, up to first industrial deployment. This can take the form of direct grants, tax advantages, repayable advances and no-loss guarantees. Companies may benefit from a bonus when their investment is supported by more than one Member State and when the investment is concluded within two months after the granting of the aid.

(viii) **Support for the production of products relevant to tackle the coronavirus outbreak** in the form of direct grants, tax advantages, repayable advances and no-loss guarantees. Companies may benefit from a bonus when their investment is supported by more than one Member State and when the investment is concluded within two months after the granting of the aid.

(ix) **Targeted support in the form of deferral of tax payments and/or suspensions of social security contributions** for those sectors, regions or for types of companies that are hit the hardest by the outbreak.

(x) **Targeted support in the form of wage subsidies for employees** for those companies in sectors or regions that have suffered most from the coronavirus outbreak, and would otherwise have had to lay off personnel.

The Temporary Framework enables Member States to combine all support measures with each other, except for loans and guarantees for the same loan and exceeding the thresholds foreseen by the Temporary Framework. It also enables Member States to combine all support measures granted under the Temporary Framework with existing possibilities to grant de minimis to a company of up to €25,000 over three fiscal years for companies active in the primary agricultural sector, €30,000 over three fiscal years
for companies active in the fishery and aquaculture sector and €200,000 over three fiscal years for companies active in all other sectors. At the same time, Member States have to commit to avoid undue cumulation of support measures for the same companies to limit support to meet their actual needs.

Furthermore, the Temporary Framework complements the many other possibilities already available to Member States to mitigate the socio-economic impact of the coronavirus outbreak, in line with EU State aid rules.

On 13 March 2020, the Commission adopted a Communication on a Coordinated economic response to the COVID-19 outbreak 4 see at setting out these possibilities. For example, Member States can make generally applicable changes in favour of businesses (e.g. deferring taxes, or subsidising short-time work across all sectors), which fall outside State Aid rules. They can also grant compensation to companies for damage suffered due to and directly caused by the coronavirus outbreak.

The Temporary Framework will be in place until the end of December 2020. With a view to ensuring legal certainty, the Commission will assess before that date if it needs to be extended.


CORONAVIRUS IMPACT: NEW MEASURES FOR ECONOMY PROTECTION PLAN IN HUNGARY ANNOUNCED

While fighting the spread of the virus, the government is also introducing measures to prop up Hungary’s economy.

Following last week’s introduction of the first economy protection action plan, Prime Minister Orbán announced yesterday that six additional measures will be added to this plan.

First, more than 81,000 sole proprietors and businesses registered to pay the Itemized Tax for Small Businesses (KATA) will be exempt from monthly tax payments until 30 June 2020. This affects primarily those in the service sector, including hairdressers, cosmeticians, plumbers, gas-fitters, carpenters, sports trainers, painters, electricians, performing artists and outpatient care providers. As with tourism and hospitality, media service providers are spared from any loss in advertising revenue.

Evictions and forfeiture of property are suspended until the end of the emergency.

Tax enforcement is also suspended, and any remaining tax debts can be paid after the end of the emergency.

Mothers currently on leave from work to care for their children will be able to remain at home until the end of the state of emergency.

The government’s initial measures included a moratorium on the payment of principal, interest and fees on individual and business loans until the end of the year as well as sector-specific aid for businesses most affected by the coronavirus fallout.


MALAYSIAN AGROBANK PROVIDES TWO SCHEMES TO B40 and SME ENTREPRENEURS

KUCHING: Agrobank welcomes the Sarawak Government’s additional MYR20 million (Malaysian Ringgit) (equivalent to EUR 4.24 million) Sarawak Micro Credit Scheme (SMCS) under the Sarawakku Sayang Special Assistance Package.

In a statement Tuesday, it said the extra allocation brings the total value of SMCS financing to MYR 50 million (equivalent to EUR 10.6 million), benefiting some 62,000 of B40 and SME entrepreneurs statewide.

“Under this collaboration, Agrobank and Sarawak Economic Development Corporation (SEDC) will manage and disburse the RM50 million total allocation to support the economic development of B40 and SME entrepreneurs in Sarawak,” it added.

Agrobank covering president and CEO Khadijah Iskandar said Sarawak has always been one of the bank’s key business focuses.

“Agrobank is committed to empowering the B40 groups in Sarawak through our various structured micro-financing programmes.

“The significant numbers of customers served has demonstrated that economic activities in Sarawak are vibrant and this programme provides abundance of opportunities for B40 and SME entrepreneurs and its ecosystem to grow their businesses during this challenging time.

“The initiatives by the state of Sarawak is timely to support small and significant businesses in Sarawak particularly those affected by COVID-19,” she said.

Under this financing programme, Agrobank is providing two different schemes – Sarawak Micro Credit Scheme 1 (SMCS 1) and Sarawak Micro Credit Scheme 2 (SMCS 2) – which aim to accommodate the B40 entrepreneurs and also SME Entrepreneurs with financial support to address their unique business needs.

SMCS 1 offers a financing ranging from MYR1,000 (EUR212) up to MYR5,000 (EUR 1,060) with zero profit charge which will be provided to B40 entrepreneurs. SMCS 2, on the other hand, offers financing from MYR5,000 (EUR1,060) up to MYR50,000 (EUR10,604).

“In addition to the financing programmes, the state government has also pledged to give an immediate moratorium of up to six months for the monthly installment payments of all financing facilities approved under this programme,” the statement said.

The bank said it provides shariah-compliant financial solutions focused on making a positive economic, social and environmental impact for the long term through its sustainable business practices.


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5 B40 means the lower-class in Malaysian household income
COMMISSION APPROVES €3.3 BILLION ROMANIAN SCHEME TO SUPPORT SMEs IN CORONAVIRUS OUTBREAK

European Commission - Press release IP/20/649 Brussels, 11 April 2020

The European Commission has approved a RON 16 billion (approximately €3.3 billion) Romanian scheme to support small and medium-sized enterprises (SMEs) in the context of the coronavirus outbreak. The scheme was approved under the State aid Temporary Framework adopted by the Commission on 19 March 2020, as amended on 3 April 2020.

Executive Vice-President Margrethe Vestager, in charge of competition policy, said: “This €3.3 billion Romanian scheme will enable Romania to help SMEs cover investment and working capital needs in these difficult times, through the provision of direct grants and public guarantees on loans. We continue to work in close cooperation with Member States to find workable solutions to mitigate the economic impact of the coronavirus outbreak, in line with EU rules.”

The Romanian support scheme

Romania notified to the Commission under the Temporary Framework a RON 16 billion (approximately €3.3 billion) scheme to support SMEs affected by the coronavirus outbreak. Under the scheme, support will be granted in the form of:

3. Direct grants; and
4. State guarantees for investment and working capital loans.

The support under the scheme will be accessible to SMEs facing difficulties as a result of the economic impact of the coronavirus outbreak. The aim of the scheme is to help businesses cover their immediate working capital or investment needs, thus ensuring the continuation of their activities.

The Commission found that the Romanian measures are in line with the conditions set out in the Temporary Framework. In particular:

5. With respect to direct grants, the support per company will not exceed €800 000 per company as foreseen by the Temporary Framework;
6. With respect to State guarantees, (i) the underlying loan amount per company covered by a guarantee is limited as set out in the Temporary Framework, (ii) the guarantees are limited to a maximum of six years, and (iii) the guarantee fee premiums do not exceed the levels foreseen by the Temporary Framework.

The Commission concluded that the Romanian measures are necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State, in line with Article 107(3)(b) TFEU and the conditions set out in the Temporary Framework.

On this basis, the Commission approved the measures under EU State aid rules.

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OBITUARY

Dr. David John Smallbone

With deep sympathy we inform our ERENET Members and Friend, that Dr. David John Smallbone, Professor of Small Business and Entrepreneurship and Associate Director of the Small Business Research Centre at the Kingston University London passed away on 19 March 2020. His funeral was held Thursday 9 April 2020 at West Herts Crematorium in UK. He was passionate of jazz music. This is why his University and friends will hold a jazz memorial after the COVID storm has passed.

Dr. Smallbone was a Past President of both the International Council for Small Business and Entrepreneurship (ICSB) and also the ECSB. He was a fellow of the ECSB and a Wilford White Fellow of ICSB and also an Associate Editor of the Journal of Small Business Management.

Dr. Smallbone was a very active member of the ERENET. He participate in many events, including Budapest as well the UNECE in Geneva. Dr. Smallbone contribute to the ERENET PROFILE and supported the entrepreneurship development in transition economies. His passing is a great loss to the entrepreneurship and SME community world-wide.

God bless you David and may rest in peace.

Dr. Antal Szabó and the ERENET Secretary

David at the Corvinus University for Economics in 2009 in Budapest
OBITUARY

Dr. Sonia Heptonstall

It is our great sorrow to inform you, that our beloved Sonia Heptonstall, Professor of the International Relations at the Geneva Business School, Member of the ERENET and Member of the ERENENET PROFILE Board passed away due to the Corona Virus in Geneva. She was International Representative for Solar Cookers International at the United Nations (ECOSOC consultative status).

Sonia is the Co-founder and partner ActInvest International, a Swiss Association focused on micro enterprise and entrepreneurship particularly that of women.

She was an active Member of the UNECE Team of Specialists on Youth Employment and Poverty Alleviation. She is a Co-founder and partner ActInvest International, a Swiss Association focused on micro enterprise and entrepreneurship particularly that of women.

Her recent projects - while I served the United Nations Economic Commission for Europe (UNECE) - included Youth Employment in Belarus and the development of entrepreneurship and microcredit in Moldova.

As the member of the International Board of ERENET PROFILE she edited all messages by the Scientific Director. She beloved the Central and Eastern European countries and kept her eye on the progress of the Transition economies.

Sonia (in middle), John her husband and Antal home in Corsier
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