

#COVID-19 #GovernmentSupportToBusinesses

COVID-19: Government support to businesses and their aid take-up in spring 2020

During the outbreak of the COVID-19 pandemic in spring 2020, the Luxembourg Government launched the 'COVID-19 Economic Stabilisation Programme' to minimise the impact of the crisis on businesses and to maintain employment stability. Three selected support measures, namely the (i) short-time work scheme, (ii) non-repayable financial aid, and (iii) repayable advances were analysed. A heterogeneous impact of the crisis across sectors was observed. Accommodation and food services, construction, and commerce stood out as the hardest hit sectors. They reported significant turnover losses, have a high prevalence of smaller companies, typically have a low capacity to telework, and were the largest beneficiaries of aid measures. The short-time work scheme had the highest take-up rate, followed by non-repayable financial aid measures with variable rates, and repayable advances with a low rate.

March 2020: Outbreak of the COVID-19 pandemic

In March 2020, the outbreak of the COVID-19 pandemic had significant negative effects on economic activity in the Grand Duchy of Luxembourg. Following the confinement measures for both individuals and businesses, various sectors were affected by a partial or complete shutdown and non-essential mobility was restricted as much as possible, which directly harmed most businesses. At the core of this crisis, the impact was acutely felt by micro-, small and medium-sized enterprises, which account for 99% of operating companies in the Grand Duchy. They faced unprecedented challenges that put the national economy at risk since they are the backbone of the economy, ensuring jobs and productivity. As a direct response in the first stage of the crisis, the Luxembourg Government tried to mitigate the adverse effects in an unprecedented way by launching the 'COVID-19 Economic Stabilisation Programme' aid package in March 2020 to sustain economic activity in order to avoid collateral damage to the national economy. The main objectives were to handle cash-flow difficulties, meet short-term liquidity needs of the self-employed and businesses of all sizes, and maintain employment to keep purchasing power stable.

A selection of the Government's economic support measures

The relatively sound situation of Luxembourg's public finances allowed the Government to create a generous package. The total budget of all support measures was estimated to be EUR 10.4 billion which corresponds to 17.5% of the GDP. This analysis focuses on labour related support as well as direct financial support.

The short-time work scheme in cases of force majeure allowed affected companies to avoid massive layoffs and reduce various costs related to labour by providing a wage subsidy corresponding to 80% of the gross wage. EUR 989 million were planned for this purpose. To help micro-enterprises forced to close due to Government decree meet their liquidity needs, the Government provided them immediate non-reimbursable cash subsidies of EUR 5,000. To assist companies that were not eligible but suffered from the lockdown, additional non-refundable financial support of EUR 5,000 for micro-enterprises and EUR 12,500 for small enterprises employing between 10 and 20 employees was made available in the following weeks. In parallel to supporting financial needs, businesses of all sizes that were facing temporary financial difficulties related to COVID-19 were provided with capital advances of up to EUR 500,000 that must be paid back in the future. The foreseen budget of those financial support measures was EUR 555 million.

The impact of COVID-19 on businesses in Luxembourg

The survey in the *'Baromètre de l'Économie: Édition 1er semestre 2020'* highlights a heterogeneous impact mainly across sectors and less so at size level. The hardest-hit sectors were accommodation and food services, construction, and commerce, all seeing a decrease in economic activity, a drop in turnover as well as liquidity. These sectors are also characterised by a high prevalence of micro- and small enterprises. Moreover, it has become obvious that the companies that benefitted the most from support measures were more likely to be active in the hardest-hit sectors or were forced to close. Micro- and small enterprises tended to be more likely to take up one of the three selected measures than larger companies.

The COVID-19 shock has hit various sectors with widely different severity which is a particularity of this crisis hinting at heterogeneous impact. The recourse of aid measures is correlated with the company's degree of exposure to the crisis which is measured by the variation in turnover during the lockdown. The hardest-hit sectors, namely accommodation and food services, construction, and commerce, resorted to the three selected aid measures the most and reported the highest turnover loss. These sectors faced two main challenges: first, they were forced to cease their activities due to the Government decree and second, they had low teleworking capabilities since their business needs physical presence both on an employee as well as on a customer level. At the opposite end, the financial services sector, which had a relatively low average turnover loss, requested, on average, the three aid measures the least. This sector, representing a high share in the national added value, was not forced to shut down its activities and could continue operating by relying on telework.

Overall, Luxembourg managed to contain the shock of the lockdown on its economy.

The take-up of support measures

During spring 2020, the main instrument used was the short-time work scheme followed by the non-repayable financial aid and the repayable advances.

The high take-up of the **short-time work scheme** can be explained by the fact that, in the wake of the crisis, the eligibility criteria were enlarged so that more sectors could benefit from it than prior to the crisis. Moreover, the administrative approval procedures were shortened and simplified. The use was positively correlated with the lockdown measures, decreased with the gradual opening of the economy, and was concentrated in the sectors where the first wave had a significant impact.

The implementation of the **non-repayable financial aid** was not very successful. The first aid of EUR 5,000 was quickly set up, which could explain why it had not been thoroughly thought through, given the urgent need for support measures. The final take-up rate was 62%. However, at the end of June 2020, the take-up rate was relatively low at 21%. Applying companies were either confronted with the complexity of the administrative applying process and did not apply even though they fulfilled the eligibility criteria, or submitted incomplete requests due to a lack of the requested documents related to financial position statements. The second aid of an additional EUR 5,000 for micro-enterprises and EUR 12,500 for small enterprises employing between 10 to 20 people was more accessible. Nevertheless, the extended scope and eligibility criteria did not yield the desired effect as take-up rates were lower compared to the previous aid measures: 49% for micro-enterprises and 28% for small enterprises. These findings can be explained, on the one hand, by the fact that the complex application process and the earlier rejection of demands discouraged SMEs from reapplying for aid. On the other hand, they suggest that despite the efforts of the government and institutional partners to raise awareness of access to the available aid measures, communication with businesses may not have been far-reaching and straightforward enough. While this analysis identifies opportunities for improvement for the non-repayable financial aid scheme, the bottom line remains unaltered, i.e. the measures helped to prevent potentially large liquidity deficits.

For the **repayable advances**, the take-up was low at the end of June 2020, which is less surprising. In general, companies were reluctant to apply due to the need for borrowing during the uncertain time of a crisis as they did not want to undertake additional risks, especially if non-repayable measures are available. Second, at the launch of this scheme there was widespread confusion about the initial terms and conditions. Many companies were not aware that the aid could be allocated to costs other than the eligible ones. This misunderstanding about the implementation and benefits of the scheme was mainly due to the complex legal language of the information available.

Recommendations

Overall, the adapted short-time work scheme appears to have been successful. By alleviating labour costs, the scheme reached its intended targets by preserving companies' skilled labour and their productive capacity for the relaunch of the economy in Luxembourg. Furthermore, the analysis points out that communication with businesses regarding the implementation and usefulness of the direct financial aid measures may not have been direct and far-reaching enough, even though efforts were made to this end. The potential of the non-repayable direct financial measures has not been fully exploited, which is regretful. It is clear that many companies preferred to benefit first from non-repayable subsidies before turning to repayable ones.

In the future, the aim should be to simplify and shorten administrative procedures as well as communicate the eligible criteria to the targeted audience in an easier language. It is vital to continue the Government support measures if strict sanitary measures limit the business activities of some specific sectors. Better targeted financial and structural support for businesses allow to have a better balance between ensuring company survival and limiting Government expenditure, which is delicate to maintain. The *'Neistart Lëtzebuerg'* support package that came out in May 2020 and following packages can be seen as opportunities to incite companies to invest in digitalisation, pursue climate commitments, and close infrastructure gaps to become more innovative and competitive in the future.

Three Takeaway Messages

- Most popular and successful support measure: Short-time work scheme
- Future challenge: Simplification of administrative procedures and communicating in an easier language
- Ensure competitiveness: Targeted measures to support the Luxembourgish businesses in their digital and green transition

This publication is based on the main findings of Christine Elsen's master's thesis which is entitled: 'COVID-19: Luxembourg's Government support to businesses and their aid take-up in spring 2020'. Christine, a master's student in economics at HEC Lausanne, worked on COVID-19 topics during her end-of-degree internship at the Luxembourg Chamber of Commerce in the Economic Affairs department in spring 2021.

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