

Did Government-Guaranteed Loans Help MSMEs Mitigate the COVID-19 Pandemic Shock?



Using Chile and Colombia as case studies, we conducted two randomized controlled trials to test how government-guaranteed loans during the COVID-19 pandemic impacted firms' liquidity and earnings.



COVID-19 loans improved total liquidity of treated micro, small and medium-sized enterprises (MSMEs) by 15.7%.



The increase in short-term liquidity may have had a positive impact on MSMEs' economic performance during the pandemic's economic deterioration.

CONTEXT

The COVID-19 pandemic has had a severe impact on economic activity. Micro, small, and medium-sized enterprises (MSMEs) have been particularly affected, facing severe economic hardship and struggling to access credit and finance. Many small businesses required short-term financial relief to confront the pandemic, survive as businesses, and continue paying rent and meeting payrolls. While financial institutions were more reluctant to lend money to the most vulnerable firms due to their high risk of default, central governments implemented new or greatly expanded well-established government-guaranteed loans relief programs to reduce the financial risk faced by banks in lending to MSMEs.

PROJECT

Through a collaboration with two local and large private banks, we conducted two randomized controlled trials involving over 13,000 firms in Chile and Colombia to examine the causal effects of loan offers on firms' access to credit, liquidity, and earnings. First, we randomized our large experimental groups with public intervention as an instrument: one group of firms received a loan offer; the remaining firms served as the control group. Second, we had access to micro high-frequency firm-level administrative and financial records provided by our private partners for all firms in our experiments from January 2019 to June 2022.

RESULTS

Our offer for a COVID-19 loan was accepted by 27.9% of businesses in our study group, and we found that government-guaranteed economic relief programs had a significant positive impact on liquidity. Total liquidity and commercial liquidity (the main type of debts that approximate MSMEs' available funding) increased by 15.7% and 26.4%, respectively, for firms that were offered the loans (see Figure 1). The effect was even larger for companies that took the loan: 101.4% increase in total money available.

No positive results were found, however, when using deposits as a proxy for earnings. Nonetheless, we still suspect that the new funds may be used to support the business and meet short-term commitments such as rent and salaries.

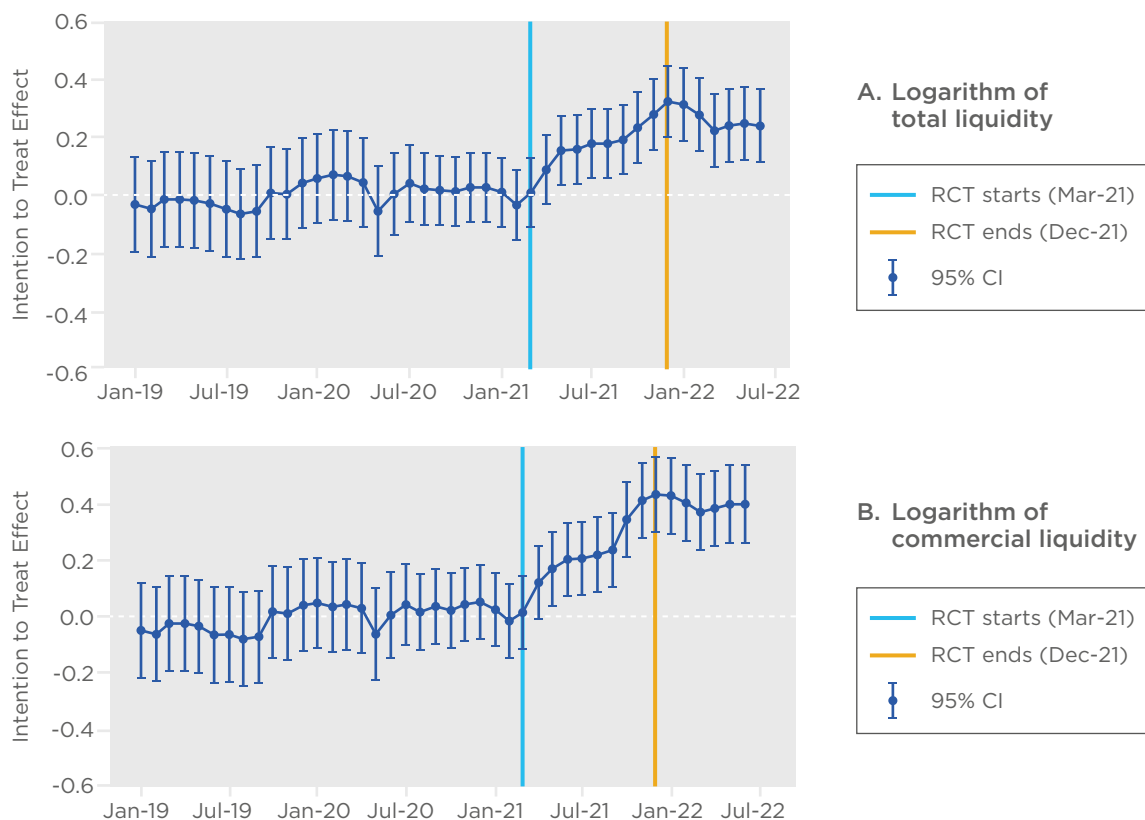
POLICY IMPLICATIONS

These results provide insight into the relevance of economic programs for small businesses, such as FOGAPE and "Unidos por Colombia," which positively impact the economic performance of MSMEs and their probability of surviving economic shocks by increasing their liquidity.

Additionally, these results can help to better assess the cost-effectiveness of expanding economic programs, allowing governments in developing economies to make more informed decisions to better mitigate the negative impacts of potential future economic slumps.

Lastly, we believe that this research takes into account the pandemic shock and the disproportionate negative impact that COVID-related mobility and gathering restrictions generated for small firms that, in addition to being the backbone of the economy in countries like Chile and Colombia, are also family businesses.

Figure 1. Monthly Estimates of Total and Commercial liquidity, January 2019 to June 2022



Note: This figure shows monthly estimates from January 2019 to June 2022 for the logarithm of total and commercial liquidity, respectively.

Key Concept



RANDOMIZED CONTROLLED TRIAL

Study design in which participants are randomly assigned to either a treatment or control group. This helps ensure that differences can be attributed to the intervention rather than other factors.

Key Concept



GUARANTEED LOAN PROGRAMS

Initiatives to support borrowers who might have difficulty getting a loan under standard conditions in which the guarantor promises to pay back the loan if the borrower cannot.



FULL STUDY

[Cerda, Maikol, Paul Gertler, Sean Higgins, Ana María Montoya, Eric Parrado, and Raimundo Undurraga. 2023. "The Causal Impact of Covid-19 Government-Backed Loans on MSMEs Liquidity and Earnings." IDB Working Paper No. 1430. Washington, DC: Inter-American Development Bank.](#)

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