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EU initiatives put forward to support small businesses in the COVID-19 outbreak

European SMEs are experiencing a period of growing uncertainty, financial distress and unique pressure due to the COVID-19 pandemic threat. In the last couple of weeks, EU institutions and other European partners have put forward a series of initiatives designed to minimise the tightening of financing conditions and social impact of the coronavirus pandemic, avoid bankruptcy and mitigate the effects of the global economic slowdown. Please find a selection of the measures listed below.

European Commission

On 26 March 2020, the European Parliament is expected to approve two legislative proposals which will free up funds for Member States to address the economic and social consequences of the COVID-19: the Coronavirus Response Investment Mechanism and the EU Solidarity Fund.

1) Coronavirus Response Investment Mechanism

The Mechanism will mobilise EUR 37 billion from the European Structural and Investment Funds (ESIF) originally set aside for programmes under the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF) and the European Maritime and Fisheries Fund (EMFF). The use of structural funds will allow healthcare costs to be eligible for reimbursement. Thus, Member States will be able to:

- Allocate money from ERDF and the ESF **to invest in healthcare systems**: purchase of health and protective equipment, disease prevention, e-health, medical devices, securing of the working environment of health care personnel and support to vulnerable groups;
- Use the ERDF to help companies tackle **short-term financial shocks** linked to the Coronavirus crisis. This could include e.g. **working capital in SMEs, with special attention to the sectors which are particularly hard hit by the crisis**.
- Use the ESF to temporarily support **national short time working schemes** which help cushion the impact of the shock.

EUR 8 billion comes from the unused pre-financing Member States received for 2019-2020 while EUR 29 billion come from EU budget. More figures in the table below:

Indicative breakdown by Member State of investment volumes under the Coronavirus Response Investment Initiative*				**EUR million**
Member States	**Amounts to be released as liquidity (1)**	**Corresponding EU budget (2)**	**Total Investment related to released liquidity (3)=(1)+(2)**	**Remaining amount of ESI Funds*** after CRII (including national co-financing)**
Balgarija	122	690	812	546
Belgique-België	37	29	66	373
Ceska Republika	294	869	1.163	3.956
Danmark	18	20	38	47
Deutschland	328	498	826	1.906
Eesti	73	222	295	397
Ellada	355	1.421	1.776	0
España	1.161	2.984	4.145	7.086
France	312	338	650	1.311
Hrvatska	174	984	1.158	0
Ireland	1	1	3	0
Italia	853	1.465	2.318	8.945
Kypros	7	39	45	0
Latvija	118	674	792	0
Lietuva	222	1.264	1.487	0
Luxembourg	1	1	2	0
Magyarország	855	4.748	5.603	0
Malta	9	39	48	0
Nederland	14	11	25	0
Österreich	13	6	19	25
Polska	1.125	6.310	7.435	0
Portugal	405	1.407	1.813	0
România	491	2.588	3.079	0
Slovenija	115	471	586	0
Slovenska Republica	527	1.948	2.475	146
Suomi/Finland	24	24	48	349
Sverige	23	23	46	460

Subtotal EU-27:	7.678	29.073	36.751	25.546
United Kingdom**	244	311	555	2.408
TOTAL:	**7.922**	**29.384**	**37.306**	**27.954**

* Interreg excluded. ESI Funds covered: ERDF, CF, ESF&YEI, EMFF
** According to the Withdrawal Agreement, the CPR applies to the UK until programme closure
*** For MS with no remaining amounts, this is due to project selection rate close to or exceeding 100% before CRII

What do the numbers in the different columns mean?

- **The first column** contains the amounts of unspent pre-financing from the EU's cohesion funds that Member States would normally have to repay to the EU budget by the end of June 2020. Provided the funds are fully spent in accordance with the relevant rules, Member States will not have to reimburse the funds.
- **The second column** represents the co-financing from the EU budget that would be available if – as recommended by the Commission - the amounts of the first column are used to finance the response to the Coronavirus.
- **The third column** simply represents the sum of the first two. It reflects the total EU budget amount that Member States can use to fight the Coronavirus, without any additional fresh money from their national coffers.
- **The final column** represents any unused cohesion allocations per Member State beyond the amounts in the third column. Given that this is the last year of the current long-term EU budget (2014-2020), the amounts vary a lot across countries.

Candidate countries are not covered by this mechanism.

The way these amounts will be spent will depend on the SME and employment support schemes, instruments and consortiums put in place by the Member States authorities. Whether they extend existing schemes or create new ones, it is up to Member States to decide. DG REGIO and DG EMPL will liaise with Member States, international authorities and key EU professional associations to monitor the situation and assist in the coordination of support measures.

On 18 March, Commissioners Elisa Ferreira responsible for Cohesion and Reforms and Nicolas Schmit responsible for Jobs and Social Rights sent letters to Member States highlighting the exact amount that countries will be entitled to use, pending a final outcome of the examination and acceptance of accounts.

2) EU Solidarity Fund

This legislative initiative will extend the scope of the EU Solidarity Fund by also **including public health crisis within its scope** and to define specific operations eligible for financing so that economic activity can resume in the disaster-stricken regions. Additional eligible operations are limited to public emergency operations, including assistance to the population in case of health crises, and measures to contain the further spreading of an infectious disease

Regarding the geographical scope, **it will be limited to Member States of and countries negotiating their accession to the EU**.

Up to EUR 800 million is available in 2020.

3) Temporary changes to State Aid rules

On 19 March 2020, the Commission published a Communication for a Temporary State Aid Framework to enable Member States to use the full flexibility foreseen under State aid rules to support to ensure liquidity and access to finance, especially for SMEs, in the context of the COVID-19 outbreak.

There are various options available to Member States outside the scope of EU State aid control and which they may put in place without the involvement of the Commission. These include **measures applicable to all undertakings regarding wage subsidies, suspension of payments of corporate and value added taxes or social welfare contributions, or financial support directly to consumers for cancelled services** or tickets not reimbursed by the concerned operators.

Member States can also design support measures in line with the General Block Exemption Regulation without the involvement of the Commission. In addition, on the basis of Article 107(3)(c) TFEU and in the Rescue and Restructuring State aid Guidelines, Member States can notify to the Commission aid schemes to meet acute liquidity needs **and support undertakings facing financial difficulties**. In fact, many Member States are already communicating their plans e.g. here.

Furthermore, on the basis of Article 107(2)(b) TFEU **Member States can also compensate undertakings in sectors that have been particularly hit by the outbreak (e.g. transport, tourism, culture, hospitality and retail**) and/or organisers of cancelled events for damages suffered due to and directly caused by the outbreak. Member States may also compensate the damages directly caused by the outbreak to undertakings that have received aid under the Rescue and Restructuring Guidelines.

The Framework provides for five types of aid:

- **Direct grants, selective tax advantages and advance payments**: Member States will be able to set up schemes to grant up to €800,000 per undertaking in the form of direct grants, repayable advances, tax or payments advantages; all figures used must be gross, that is, before any deduction of tax or other charge;
- **State guarantees for loans taken by companies from banks**: Member States will be able to provide State guarantees to ensure banks keep providing loans to the customers who need them; limited to a maximum of 90% of the loan and six years of guarantee duration, where losses are sustained proportionally and under same conditions, by the credit institution and the State;
- **Subsidised public loans to companies**: Member States will be able to grant loans with favourable interest rates to companies to both investment and working capital needs;
- **Safeguards for banks that channel State aid to the real economy**: Some Member States plan to build on banks' existing lending capacities, and use them as a channel for support to businesses – in particular to SMEs. Such aid is considered as direct aid to the banks' customers, not to the banks themselves;
- **Short-term export credit insurance**: The Framework introduces additional flexibility on how to demonstrate that certain countries are not-marketable risks, thereby enabling short-term export credit insurance to be provided by the State where needed.

The Framework will not be applied after 31 December 2020.

4) European Globalisation Adjustment Fund

The Commission has announced that the **European Globalisation Adjustment Fund (EGF) could be mobilised to support dismissed workers and those self-employed.**

As a general rule, the EGF could be used only where over 500 workers are made redundant by a single company (including its suppliers and downstream producers), or if a large number of workers are laid off in a particular sector in one or more neighbouring regions. However, **the Regulation allows for some flexibility during exceptional circumstances.**

A financial contribution from the EGF may be made for the following eligible actions:
- Tailor-made training and retraining, including ICT skills and certification of acquired experience, job-search assistance, occupational guidance, advisory services, mentoring, outplacement assistance, entrepreneurship promotion, aid for self-employment, business start-ups and employee take-overs, and co-operation activities;
- Special time-limited measures, such as job-search allowances, employers' recruitment incentives, mobility allowances, subsistence or training allowances (The costs of these measures may not exceed 35 % of the total costs for the coordinated package of personalised services under this paragraph)
- Measures to stimulate in particular disadvantaged, older and young unemployed persons to remain in or return to the labour market.

The cost of investments for self-employment, business start-ups and employee take-overs may not exceed EUR 15 000.

The Commission mentioned that up to **EUR 179 million is available in 2020.**

European Investment Bank

The European Investment Bank (EIB) will deploy its existing instruments in order to support Member States with liquidity, complementing measures taken at national level. **EUR 1 billion will be made available from the EU budget as a guarantee to the European Investment Fund (EIF) in the coming weeks to support approximately EUR 8 billion of working capital financing** and help at least 100,000 European SMEs and small mid-caps, according to the following structure:
- €500 million of EFSI EU Guarantee will be allocated to COSME Loan Guarantees – to become available within the coming weeks;
- €100 million of EFSI EU Guarantee will be allocated to InnovFin SME Guarantees – to become available within the coming weeks;
- €250 million is already available under the Infrastructure and Innovation Window of EFSI and will be redirected to support instruments for SMEs, where possible in a concerted effort with EU National Promotional Banks and Institutions;
- €150 million will be reallocated within the EFSI SME Window from instruments that support longerterm specific interventions to shorter-term actions with faster effect

Lending will, within the limits of applicable legislation, be refocused to working capital loans with a maturity of 12 months or more. Additionally, credit holidays - allowing for delayed repayments of loans - will be implemented for affected companies under the same instruments, alleviating the strain on their finances.

Furthermore, the EIB is setting up dedicated guarantee schemes to banks based on existing programmes for immediate deployment, mobilising up to EUR 20 billion of financing, dedicated liquidity lines to banks to ensure additional working capital support for SMEs and mid-caps of EUR 10 billion; and dedicated asset-backed securities purchasing programmes to allow banks to transfer risk on portfolios of SME loans portfolios, mobilising another EUR 10 billion of support.

For more information, please consult the EIB infographic.

European Bank for Reconstruction and Development

On 13 March 2020, the European Bank for Reconstruction and Development (EBRD) unveiled a **EUR 1 billion emergency coronavirus financing package to support the development especially of the private sector across 38 emerging economies, many of them candidate countries**.

EBRD is aware that, as demand decreases, many firms, especially SMEs, will experience a sharp decrease in revenues, tightening their liquidity. Under the emergency programme, the EBRD will set up a “resilience framework” to provide financing for existing EBRD clients with strong business fundamentals experiencing temporary credit difficulties. Elements of the resilience framework:

- Expansion of trade finance and where required short term (up to 2 years) finance through financial institutions, notably in support of SMEs;
- Short-term (up to 2 years) working capital facilities for corporates and energy developers;
- For sub sovereign municipal, energy and infrastructure clients, balance sheet restructuring and short-term liquidity support;
- The EBRD will take “an enabling view” to restructuring of existing loans adjusted repayment schedules, collateral, interest rates and fee structures;
- EBRD will also assess the need to restructure existing loans, including the possibility of extending maturities and changing other conditions and use its ability to disburse in local currency;
- The Bank’s SME Finance and Development teams are working to support SMEs by using available digital tools to provide critical advice - and to women-led SMEs in particular - on cash, liquidity and crisis management.

More detailed economic forecasts for the EBRD regions will be issued at the end of March. Additional details can be obtained by contacting the local EBRD office.

European Central Bank

On 12 March 2020, the European Central Bank (ECB) announced measures on additional longer-term refinancing operations (LTROs) **to provide immediate liquidity support to banks and to safeguard money market conditions to those affected most by the spread of the outbreak, in particular SMEs.**

The key parameters of the third series of targeted longer-term refinancing operations (TLTRO III) **to support the continued access of firms and households** to bank credit in the face of disruptions and temporary funding shortages associated with the coronavirus outbreak. The changes will apply to all TLTRO III operations.

Main elements:

- Interest rate on TLTRO III reduced by 25 basis points and can be as low as 25 basis points below average deposit facility rate during period from June 2020 to June 2021 for all TLTRO III operations outstanding during that period;
- Borrowing allowance raised to 50% of eligible loans; The amount counterparties can borrow under future TLTRO III operations is reduced by any amount that they previously borrowed under TLTRO II or TLTRO III that is still outstanding.
- Bid limit per operation removed on all future operations;
- Lending performance threshold reduced to 0%;
- Early repayment option available after one year from settlement starting in September 2021;
- Modification accompanied by series of longer-term refinancing operations (LTROs) designed to bridge liquidity needs until settlement of fourth TLTRO III operation in June 2020, starting from 16 March 2020.

The ECB also announced it would buy an additional EUR 120 billion of government and corporate bonds by the end of the year as part of an effort to increase demand, drive down market interest rates and reduce the cost of borrowing.

On 18 March, the ECB announced the launch of a new temporary asset purchase programme of private and public sector securities, the **Pandemic Emergency Purchase Programme (PEPP)**, with an overall envelope of €750 billion, to be conducted until the end of 2020.

The ECB also announced that it will **expand the range of eligible assets under the corporate sector purchase programme** (CSPP) **to non-financial commercial paper**, making all commercial papers of sufficient credit quality eligible for purchase under CSPP.

Finally, the ECB will **expand the scope of Additional Credit Claims (ACC) to include claims related to the financing of the corporate sector**. This will ensure that counterparties can continue to make full use of the Eurosystem's refinancing operations.

These macro-prudential measures are expected to change the behaviour of the banking system, balance credit supply and demand, stabilise the potential rise of inflation in the Euro area and continue to support private consumption.

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