

**EU INSTITUTIONAL MEASURES TO SUPPORT SMEs - COVID-19**

This report, prepared by Genesis Initiative EU Policy Director, Dr. David P. Doyle, provides insights into the EU Institutional measures introduced to aid SMEs arising from COVID-19 crisis

Since the advent of COVID-19, the EU institutions – the European Commission, European Parliament and Council - have launched a number of economic and monetary measures in support of SMEs.

**Background**

Europe’s 25 million small and medium enterprises (SMEs) constitute the backbone of the EU economy. They employ around 100 million people, and account for more than half of Europe’s GDP.

SMEs are deeply woven into Europe’s economic and social fabric. In the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU. The European Commission considers SMEs and entrepreneurship as key to ensuring economic growth, innovation, job creation, and social integration in the EU. The COVID-19 challenges facing European SMEs are thus challenges for the whole of Europe.

 Unlike the USA, over 80% of EU-based SMEs seek their main source of funding from banks, rather than the capital markets, a vulnerability factor the EC has long sought to address through the Capital Markets Union initiative. See US SME support measures at the end of this update.

 The main factors determining whether an enterprise is an SME are:

1. staff headcount
2. either turnover or balance sheet total

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| **Company category** | **Staff headcount** | **Turnover** | or | | **Balance sheet total** |
| Medium-sized | < 250 | ≤ € 50 m | | ≤ € 43 m | |
| Small | < 50 | ≤ € 10 m | | ≤ € 10 m | |
| Micro | < 10 | ≤ € 2 m | | ≤ € 2 m | |

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**COVID-19 EU Institutional measures to support SMEs**

On 13th March 2020, the European Commission issued a Communication on a **Co-ordinated economic response to the COVID-19 Outbreak,** underlining its intention to use all the tools at its disposal and the immediate response to mitigate the economic impact of COVID-19 including liquidity measures, alleviating the impact on employment, and the Coronavirus Response Investment Initiative. This was subsequently approved by the European Parliament.

See full EC Communication under**:**

<https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf>

In short, the Commission will:

* Adopt a €37bn ($42.5bn, £36.6bn) Coronavirus Response Investment Initiative, designed to support the European healthcare sector, the labour market and SMEs from all affected sectors.
* Deploy its existing instruments to support SMEs with liquidity, complementing the measures taken at a national level.
* Urge national governments to assist businesses without needing state aid approval, by providing, *inter alia*, wage subsidies, suspending corporate tax payments or the payment of VAT: “The European rules on state aid enable governments to take effective action and give SMEs the urgent liquidity they need.”

Of the total, some €8bn of investment liquidity will be released from unspent pre-financing in 2019 for programmes under the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund. The European Regional Development Fund noted that it “*should support the financing of working capital in SMEs where necessary […] to provide an effective response to a public health crisis*”.

On 16th March 2020, the European Investment Bank (EIB) proposed a plan to mobilise up to €40 billion of financing. This will go towards bridging loans, credit holidays and other measures designed to alleviate liquidity and working capital constraints for SMEs and mid-caps. The EIB Group, including the [European Investment Fund](https://www.eif.org/what_we_do/covid-19-response/index.htm), which specialises in support for SMEs, will work through financial intermediaries in the Member States and in partnership with national promotional banks.

The proposed financing package consists of:

* Dedicated guarantee schemes to banks based on existing programmes for immediate deployment, mobilising up to **€20 billion** of financing;
* Dedicated liquidity lines to banks to ensure additional working capital support for SMEs and mid-caps of **€10 billion**;
* Dedicated asset-backed securities (ABS) purchasing programmes to allow banks to transfer risk on portfolios of SME loans, mobilising another **€10 billion** of support.

All these actions can be implemented quickly to ease liquidity shortages and will be implemented in partnership with national promotional banks wherever feasible.

**On 2nd April 2020, the EC proposed** [far-ranging measures](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_582) **to mobilise some** €100bn to launch a new initiative called **SURE - Support mitigating Unemployment Risks in Emergency, helping** to preserve jobs and support families. **Farmers** and **fishermen** will also receive support. An **EU Solidarity for Health Initiative** of €3bn will cater for the needs of Member States’ health systems. The temporary Support to mitigate Unemployment Risks in an Emergency will be provided in the form of loans on favourable terms from the EU to the Member States, and support Member States in the creation of short-time work schemes or support measures for the self-employed.

On 12th March 2020, the European Commission called **for start-ups** and **SMEs** with technologies and **innovations** that could help in **treating**, testing, monitoring or other aspects of the Coronavirus outbreak to apply urgently to the next round of funding from the European **Innovation** Council. This has a total budget of budget of €164m and no pre-defined topics.

# On 12th March 2020, the ECB announced easing of conditions for **targeted longer-term refinancing operations (TLTRO III**), aimed at banks’ lending to SMEs consisting of:

* More favourable operations to support bank lending to those affected most by the spread of the coronavirus, in particular small and medium-sized enterprises
* 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
* 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 4th TLTRO III operation (June 2020)

**EPP manifesto: a European Solidarity Pact against the coronavirus pandemic**

On 7th April 2020, the largest MEP group within the European Parliament, the European Peoples Party (EPP), issued its manifesto listing measures that the EC should consider adopting in the face of the COVID-19 crisis, and underlined the importance of supporting SMEs. At the time of writing, much of the EPP SME narrative is being introduced into a Resolution in preparation under a cross-EU parliamentary party initiative.

Highlighted below are their references to assisting SME’s:

* Address the urgent liquidity needs of our companies, notably SMEs and the self- employed, through an increase in the EIB’s equity and the establishment of a dedicated extraordinary EIB fund to provide liquidity to SMEs facing a temporary and dramatic drop in their revenues because of the crisis. Money drawn from this fund could be used to pay wages or debt obligations and would come with a very low or zero interest rate;
* Insist on a pro-active role of the banking sector in this crisis, allowing companies and citizens who are suffering financially as a result of COVID19 to temporary lower or halt debt or mortgage repayments, providing maximum flexibility in the treatment of non-performing loans, temporarily suspending dividend payments and lowering the often excessive interest rates on current account overdrafts; supervisors must demonstrate a high degree of flexibility to this end.
* Support SMEs through a COVID-19-screening of EU legislation and a clear reduction of red tape including regulatory action taken by EU agencies; furthermore it should be ensured that planned legislation does not create additional uncertainty during the crisis;

**More recent developments**

On 7th April 2020, the European Commission unlocked €1bn from the European Fund for Strategic Investments (EFSI) that will serve as a guarantee to the European Investment Fund (EIF), part of the European Investment Bank Group. This will allow the EIF to issue special guarantees to incentivise banks and other lenders to provide liquidity to at least 100,000 European SMEs and small mid-cap companies hit by the economic impact of the coronavirus pandemic, for an estimated available financing of €8bn.

The announcement fulfilled the EC’s commitment of 13th March to bring immediate relief to hard-hit SMEs, with money able to flow already in April. It is part of the package of measures announced by the EIB Group on 16th March designed to rapidly mobilise support for Europe's SMEs and mid-caps.

One of the immediate economic consequences of the coronavirus pandemic is the sudden lack of liquidity affecting small and medium-sized businesses. These companies are typically the most affected in a crisis, and it is essential to support them with adequate liquidity so they can survive the crisis. However, in a situation of liquidity crunch banks are not incentivised to lend SMEs money due to the sudden increase in perceived risk. That is why EU guarantees supporting these loans are necessary. The EIF is thus offering to the market dedicated EFSI-backed guarantees to contain the impact of the pandemic on small and medium sized enterprises and small mid-cap companies.

The €1bn unlocked from the EFSI under the COSME Loan Guarantee Facility and the InnovFin SME Guarantee under Horizon 2020 allows the EIF to provide guarantees worth €2.2bn to financial intermediaries, unlocking €8bn in available financing. The guarantees will be offered through the EIF to the market, via a call for expressions of interest to several hundred financial intermediaries, comprising banks and alternative lenders. Key features of these guarantees will be:

* Simplified and quicker access to the EIF guarantee
* A higher risk cover – up to 80% of potential losses on individual loans (as opposed to the standard 50%);
* Focus on working capital loans across the EU;
* Allowing for more flexible terms, i.e., postponement, rescheduling or payment holidays

The new features will be accessible to new, and existing, financial intermediaries already working with EIF, extending special conditions to more than a 100,000 companies benefitting from guarantees under the COSME LGF and the InnovFin SMEG programmes.

**Background**

To unlock the €1bn from the EU budget, the Commission and the EIB Group have made a series of amendments to their specific agreements.

The [**European Investment Fund**](http://www.eif.org/) (EIF) is part of the European Investment Bank group. Its central mission is to support Europe's micro, small and medium-sized businesses by helping them to access finance. EIF designs and develops both venture and growth capital, guarantees and microfinance instruments which specifically target this market segment. In this role, EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth and employment.

**COSME** is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) running from 2014 to 2020 with a total budget of €2.3 billion. At least 60% of the programme is devoted to improving access to finance for SMEs in Europe, with two financial instruments. The [COSME Loan Guarantee Facility](https://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/index.htm) supports guarantees and counter-guarantees to financial institutions to help them provide more loans and lease finance to SMEs. COSME Equity Facility for Growth helps provide risk capital to SMEs mainly in the expansion and growth stages.

**Horizon 2020** is the EU programme for Research and Innovation running from 2014 to 2020 with a total budget of €77 billion. Under Horizon 2020, InnovFin – the EU Finance for Innovators – financial instruments aim to facilitate and accelerate access to finance for innovative businesses across Europe. In particular, the [InnovFin SME Guarantee (SMEG) Facility](http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/index.htm) provides guarantees and counter-guarantees on debt financing of between €25,000 and €7.5m to improve access to finance for innovative SMEs and Midcaps.

The **European Fund for Strategic Investments** (EFSI) is the financing pillar of the Investment Plan for Europe, which was launched in November 2014 to reverse the downward trend in investment levels and put Europe on the path to economic recovery. Its innovative approach based on the use of an EU budget guarantee provided to the EIB Group enables substantial public and private sector funds to be mobilised for investment into strategic sectors of the European economy. The Investment Plan for Europe has already generated more than €460bn of investment and supported 1.1 million start-ups and SMEs across Europe.

**USA: measures to support SMEs**

In early April, the US Treasury introduced a $350bn fund to extend loans to SMEs, which was part of a $2.2tn economic relief package sighed into US law in March 2020.

The fund allows SMEs to receive loans backed by the Small Business Administration and can keep the money if they retain most of their staff.

In due course, the fund will be extended to independent contractors and sole traders who will be eligible to apply for funding.

**Compiled by Ambassador Dr. David P. Doyle**

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