Policy briefing

EU financial support to fight coronavirus and its socio-economic impact

18 May 2020

This briefing is an update of the previous document published on 24 April. It takes into consideration the latest development on the EU actions to mitigate the impact of COVID-19 crisis until 13 May 2020.

In the context of the rapidly spreading coronavirus (COVID-19) across all EU member states, the European Commission and other EU institutions are proposing different measures to limit the spread of the virus, ensure access to medical equipment, boost research and tackle the socio-economic impact of this crisis.

1. Using funding under cohesion policy: the CRII+

CRII+ follows to the first package of measures of the Coronavirus Response Investment Initiative (CRII), which allowed the immediate mobilisation of structural funds, to allow for a prompt response to the crisis. The first Coronavirus Response Investment Initiative package consisted of three main elements:

- about €8 billion of immediate liquidity to accelerate up to €37 billion of European public investment,
- flexibility in applying EU spending rules and
- extend the scope of the EU Solidarity Fund.

This is not fresh money, but unspent money from the EU budget for structural funds.

The amounts for each EU country depend on how much was originally available for each Member State, and on how much they have left to spend from EU structural and cohesion funds. Member states will be able to transfer money between different funds to meet their particular requirements. Money can be re-assigned by managing authorities and Member states to new emerging priorities, and to the most affected regions, with simplified procedures and with minimum administrative burdens. This full flexibility applies to the 2020 budget appropriations only. Member States can address three key priorities in the fight against the current emergency and its economic consequences: spending on healthcare, support to short time work schemes, and support to the SMEs working capital.

The additional flexibility and simplification include:

- Transfer possibilities across the three cohesion policy funds (the European Regional Development Fund, European Social Fund and Cohesion Fund);
- Full flexibility to redirect resources to the areas most impacted by the current crisis, transfers between the different categories of regions;
- Make it possible for Member States to exceptionally request 100% EU co-financing for their cohesion policy programmes;
- Possibility for a 100% EU co-financing rate for cohesion policy programmes for the accounting year 2020-2021;
- Simplify procedures linked to programme implementation and audit.

This is how the €37 billion will be directed:

- €8 billion of liquidity to be made available immediately to Member States
- If fully used, this will be complemented by €29 billion of EU budget money from the European Structural and Investment Funds; no fresh Member State money needed for the €37 billion support.

New level of financing and flexibility have also been introduced in the European Maritime and Fisheries Fund and European Agricultural Fund for Rural Development (EAFRD). These would enable Member States to provide support to fishermen for the temporary cessation of fishing activities and advance payments and liquidity for farmers to avoid issues in the food production.

The European Commission has set up a central information point dedicated to information exchange with Member States, regional and local authorities, and citizens. If you have any further questions on the use of these funds in your city, get in contact with: EC-CORONA-RESPONSE-INVESTMENT-SECRETARIAT@ec.europa.eu An overview of CRII+ is available here.

2. Fund for European Aid to the Most Deprived (FEAD)

CRII+ also introduces more flexible rules for the Fund for European Aid to the Most Deprived (FEAD). It will be now possible to deliver food aid and basic material assistance also through electronic vouchers and to provide the protective equipment to lower risk of contamination. Compared to the Commission proposal, the Council position provides for the possibility of delivering food aid and basic material assistance not only through electronic vouchers, but through vouchers in any form. As for cohesion funds, a co-financing rate of 100% will be allowed for the accounting year 2020-2021, while administrative burdens will be diminished.

Our briefing on FEAD. More information on the flexible use of FEAD.

3. EU Solidarity Fund

The EU Solidarity Fund supports Member States hit by major natural disasters. The Commission proposes to extend its scope to allow financial assistance for those seriously affected by COVID-19, as the outbreak constitutes a major public health emergency. The aim is to speed up mobilisation of such funding and raise advance payments to 25% of the expected EU Solidarity Fund contribution. Up to €800 million is available in 2020. In the EP plenary session on 26 March, MEPs approved the Commission proposal to allow member states to request financial assistance from the EU Solidarity Fund in their fight against Covid-19.

4. Emergency Support Instrument

On 14 March the European Commission has announced to create the first-ever strategic 'rescEU' stockpile of medical equipment, including ventilators and protective masks, to help EU countries in the context of the COVID-19 pandemic, through the EU civil protection mechanism.

As of 2 April, the Commission proposed the mobilisation of an additional €2.7 billion of EU funding, which will be channelled through the Emergency Support Instrument. Additional contributions will be possible from Member States and also individuals, foundations and even crowd funding. The Commission will be able to:

- directly purchase or procure emergency support on behalf of Member States and distributing medical supplies such as masks and respirators
- financially support and co-ordinate pressing needs such as the transportation of medical equipment and of patients in cross-border regions
- support the construction of mobile field hospitals.

The Emergency Support Instrument will allow the EU to provide a coordinated EU response in the different stages of the crisis and depending on the specific needs of each member state.

5. The European Globalisation Adjustment Fund

To mitigate the economic impact, €179 million remains available under the European Globalisation Adjustment Fund to support workers who lose their jobs.

6. Support to mitigate Unemployment Risks in an Emergency (SURE)

On 2 April, the European Commission has launched a temporary instrument to provide 'Support to mitigate Unemployment Risks in an Emergency (SURE)'. The approved new temporary pan-European instrument worth up to **€100 billion of loans that members states can take.** It is designed to temporary protect jobs and employees affected by the coronavirus pandemic.

SURE is a loan based instrument at favourable terms for Member States to cover the costs **of the creation or extension of national short time work schemes**. The €100 billion of loan will be available only after a minimum of €25 billion of guarantees voluntarily committed by member states. There are no pre-allocated envelopes for member states.

To obtain a loan under SURE instrument:

- Member State decides to activate short-time work schemes to preserve employment and assist the self-employed. This leads to sudden increases in public expenditure.
- Member state makes a request to the Commission for financial support through SURE to help finance this expenditure.
- Commission consults the Member State to define the terms of the loan, based on an evaluation of the increase in public expenditure.
- Commission presents a proposal for a decision to the Council to provide financial assistance.
- Once approved, the financial assistance will take the form of a loan from the EU to the member state on favourable terms.

The instrument has a temporary character meaning that the European Commission will review every six months whether the exceptional circumstances causing the severe economic disturbances still exist. You can find a more comprehensive policy brief here.

7. Horizon 2020 and other funding programmes

A common European Research Area Corona platform has been created to create synergies on member states research and innovation effort.

Many Horizon2020 calls have had their deadline postponed allowing more time for organisations to prepare and apply. Other funding, like the Rights Equality and Citizenship programme and ERASMUS, are also granting delays to submit the full proposals.

COSME has published a call on Social economy missions, which could fund small projects for local authorities to get together in support of the economy recovery, with a role for innovation and SMEs.

8. Support from banks

a) European Investment Bank

The European Investment Bank (EIB) is making available up to **€40 billion** to bridge short-term financing needs of SMEs. Liquidity measures to help hard-hit SMEs include:

- The Commission will make available €1 billion in an EU budget guarantee to the European Investment Fund (EIF) via the European Fund for Strategic Investments (EFSI).
- With the backing of the EU budget guarantee, the EIF will provide liquidity and guarantees to banks, mobilising €8 billion in working capital financing. This will help at least 100,000 SMEs and small mid-caps companies.
- Credit holidays (delayed repayments of loans) to help affected companies alleviate the strain on their finances.

The EIB Group is currently looking to expand its financing for venture equity and venture debt for companies engaged in high-risk research and development of vaccines, treatments, drugs and diagnostics. These projects would be fast-tracked through the EIB immediately and will be able to use various EU programmes and mandates for this support. There are currently numerous projects in the health sector for a total of around €5 billion.

On Friday, 3rd April 2020 the European Investment Bank Group board endorsed the proposal for EU Member States to create a **€25 billion guarantee fund** that would mobilise up to €200 billion for the European economy to deal with the impacts of the coronavirus. The €25 billion guarantee fund would be funded by EU Member States. Thanks to the guarantee, the EIB Group would be able provide existing products **to local banks and other financial intermediaries**, who are in close contact with businesses in all member states and can unlock financing to the real economy, without risking financial instability.
More on the EIB action.

b) European Central Bank

The European Central Bank (ECB) will provide a **€750 billion Pandemic Emergency Purchase Programme** until the end of 2020 to relieve government debt during the crisis. €120 billion in quantitative easing measures and €20 billion in debt purchases, mobilising a further €500 billion from the European Stability Mechanism (ESM).

Other measures taken by the ECB include expanding 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.

The bank is making available up to €3 trillion in liquidity through the refinancing of its operations. Additional measure included the lowering of their interest rates at -0.75% to support the lending capacity by euro area banks. More on the ECB action.

c) European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD), together with other leading development banks, are looking into measures to provide emergency liquidity and working capital to existing clients. An initial €1 billion package was approved to support companies.
More on the EBRD action.

9. State aid

To help national governments support their economies, the European Commission approved on 19 March a Temporary Framework allowing them to derogate from State aid rules until at least December 2020. This support ensures that enough liquidity remains available to businesses of all types. Countries need to make a formal request to use State aid under these conditions. The Temporary Framework provides for five types of aid:

- Direct grants, selective tax advantages and advance payments: Member can set up schemes to grant up to €800,000 to a company to address its urgent liquidity needs.
- State guarantees for loans taken by companies from banks: Member states can provide state guarantees to ensure banks keep providing loans to the customers who need them.
- Subsidised public loans to companies: Member states will be able to grant loans with favourable interest rates to companies. These loans can help businesses cover immediate working capital and investment 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.
- Short-term export credit insurance: The Temporary 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.

On 27 March the Temporary Framework was extended to include another five support possibilities for Member States:

- More support for coronavirus related research and development (R&D) to address the current health crisis. Even more aid can be granted, if MS cooperate across borders.
- More support for the construction and upgrading of testing facilities for products relevant to tackle the coronavirus outbreak, such as vaccines, medical equipment or devices, protective material and disinfectants. MS can also grant no-loss guarantees to provide incentives for companies to invest. Even more aid can be granted, if MS cooperate across borders.
- More support for the production of products relevant to tackle to coronavirus outbreak, such as vaccines, medical equipment or devices, protective material and disinfectants. MS can also grant no-loss guarantees to provide incentives for companies to invest. Even more aid can be granted, if MS cooperate across borders
- Targeted support in the form of deferral of tax payments and/or suspensions of employers' social security contributions to help avoid lay-offs due to the coronavirus crisis in specific regions or sectors that are hardest hit by the outbreak.
- Targeted support in the form of wage subsidies for employees to help avoid lay-offs due to the coronavirus crisis in specific regions or sectors that are hit hardest by the outbreak.

The Temporary Framework was first amended on 3 April 2020.

Countries that have already made use of the State aid Temporary Framework as of 21 April are France, Denmark, Germany, Italy, Portugal, Latvia, Luxembourg, Spain, the United Kingdom, Malta, Ireland, the Netherlands, Poland, Greece, Sweden, Estonia, Slovakia, Finland, Hungary, Austria and Croatia.

On 9 April, the European Commission proposed to further extend the scope of the Temporary Framework by enabling Member States to provide recapitalisations to companies in need.

Such actions have a significant impact on competition so they should be used as a last resort. Those actions will also be subject to clear conditions as regards the State's entry, remuneration and exit from the companies concerned, strict governance provisions and appropriate measures to limit potential distortions of competition. Member States can comment on the European Commission's draft proposal and the amendment is expected to be in place in second – half of April.

More information on the action.

10. *Suspending* Stability and Growth Pact

Ministers of Finance of the Member States of the EU agree with the assessment of the Commission, as set out in its Communication of 20 March 2020, that the conditions for the use of the general escape clause of the EU fiscal framework – a severe economic downturn in the euro area or the Union as a whole – are fulfilled.

The use of the clause will ensure the needed flexibility to take all necessary measures for supporting our health and civil protection systems and to protect our economies, including through further discretionary stimulus and coordinated action, designed, as appropriate, to be timely, temporary and targeted, by Member States.

Ministers remain fully committed to the respect of the Stability and Growth Pact. The general escape clause will allow the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Stability and Growth Pact, while departing from the budgetary requirements that would normally apply, in order to tackle the economic consequences of the pandemic.

On 26 March in the joint statement of the members of the European Council, member states emphasised the need for flexibility to do everything that is necessary and supported the proposal of the European Commission for the unprecedented use of the general escape clause under the Stability and Growth Pact.

11. *ESM Credit Line to Pandemic Crisis*

On 23 April the European Council gave final green light to set up a specific credit line within the European Stability Mechanism (ESM). The credit can support direct and indirect health care, cure and prevention expenditure in Member States, that can borrow at favourable conditions up to 2% of their GDP.

There is no typical ESM conditionality attached to this scheme that is expected to be available from 1 June.

12. A new Recovery Fund

On 23 April, the European Council agreed to create a Recovery Fund to support EU economy. The European Commission will present a draft on 6 May, to be discussed by the Council on 18-19 June. It is still unclear what forms the Recovery Fund will take. But it is expected to be closely linked to the next MFF.

13. Revising next Multiannual financial framework 2021-2027

To ensure future EU budget is up to the new socio-economic challenges, the EC will present on 29 April a revised version of the multiannual financial framework (MFF) for 2021-2027.

The next budget is expected to play a crucial role in the socio-economic recovery of Europe.

14. EU Recovery Plan bringing together recovery fund and MFF

In a speech to the European Parliament on 13 May, the president of the European Commission, Ursula Von der Leyen, shared the plans for EU's next long term budget and the main features of the EU recovery plan with a focus on green, digital and support to those hardest hit by the crisis.

In addition to the long-term budget (MFF for 2021-2027), the Commission proposes a specific recovery instrument which will be short-term and mainly directed towards those areas in the EU most affected by the crisis. It is expected to include both grants and investment schemes, with cheap up-front loans for member states. Rather than being funded by EU member states shares, the recovery plan will be funded by borrowing of money on the market, using the member states solvency as guarantee.

The entire amount of the recovery instrument will be channelled through EU programmes as part of the next long-term budget, using the three already existing instruments:

- A top up of **cohesion funding** (ERDF, ESF, cohesion fund) called 'recovery and resilience tool', meant to support the transition towards a climate-neutral and a digitalised and resilient Europe, for those areas most heavily affected by the crisis and its socio-economic impact;
- The strengthening of the **current InvestEU facility**, which will provide loans and solvency for companies and help invest in key value chains, such as the pharmaceutical sector;
- The strengthening of funding programmes, such as **Horizon Europe and a new Health Programme** which proved key during to crisis in quickly mobilise help.

This recovery instrument will complement the support already approved such as SURE, the possibility for loans under the European Stability Mechanism and the support to companies and health sector agreed under the European investment Bank.

The EU budget proposal is expected to be published on 20 May and will include the proposed total size of the EU budget.