EUROCITIES Policy briefing

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

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

The package of recent EU measures include:

- Using EU budget:
  - unspent cohesion policy funds to support people, jobs and businesses
  - EU Solidarity Fund
  - The European Globalisation Adjustment Fund
  - Horizon 2020 for boosting research
- Liquidity measures to help SMEs by mobilising financing from European Investment Bank
- Enabling flexibility in the application of EU rules on:
  - state aid measures to support businesses and workers
  - public finances and fiscal policies, e.g. to accommodate exceptional spending

1. Using EU funding under cohesion policy to support people and jobs

On 13 March, the European Commission proposed the Coronavirus Response Investment Initiative (CRII) to mobilise cohesion policy to flexibly respond to the rapidly emerging needs in the most exposed sectors, such as healthcare, SMEs and labour markets.

Under this initiative, the Commission proposed to **direct €37 billion under cohesion policy** by relinquishing its obligation this year for unspent structural funds to be returned. This is NOT fresh money, but unspent money from EU budget for structural funds to member states.

In practice this means:

- liquidity made available to member states
- using available unused cohesion policy funds: bring expenditure forward and redirect to the fight against the coronavirus
- adapting the rules to ensure high and relevant impact
- flexible application of the rules
- administrative support on how to use the funds

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.

On top of the €37 billion, additional €28 billion of as of yet unallocated structural funds for 2020 should be fully eligible for fighting the crisis thereby providing member states with the needed sources of funding.

The EU funds are directed at healthcare systems, SMEs and labour markets. Expenditure on crisis response will be eligible as of 1 February 2020. Eligible costs are:

- Corona-relevant **health expenditure** in any part of the member states including: hospital equipment, inhalators, masks (funding for infrastructure under ERDF)
- **Support** to SMEs working capital (under European Social Fund)
- Short-term **employment** schemes (under European Social Fund)

There is agreement that the rules around cohesion policy funding will be applied with flexibility to allow change in priorities of the Operational Programmes. This opens the possibility to use the remaining structural funds to support SMEs, change lines of production, etc. to overcome the healthcare crisis and mitigate its socio-economic impact.

Find more details in the overview here: http://nws.eurocities.eu/MediaShell/media/13032020_-_coronavirus_response_investment_initiative_final_v2_0.pdf

On 18 March 2020, Commissioners Elisa Ferreira responsible for Cohesion and Reforms and Nicolas Schmit responsible for Jobs and Social Rights have sent **letters to all the EU member states** to inform them on the **individual funding support** they can receive under the Coronavirus Response Investment Initiative (CRII). The letters, with individual country information are available here: https://ec.europa.eu/regional_policy/en/newsroom/coronavirus-response/

To support the implementation of the Coronavirus Response Investment Initiative, the Commission has established **a Task Force** to serve as a **one-stop shop** for member state questions, mutual learning and advice. The Task Force is further supported by country teams lead by DG REGIO and DG EMPL directors responsible for each member state.

Both the European Parliament and the Council of the EU approved the proposal from the European Commission for the Coronavirus Response Investment Initiative (CRII):

- During the plenary session on 26 March, MEPs voted in favour to make €37 billion from EU structural funds available to EU countries to tackle the coronavirus crisis.
- The EU ministers responsible for Cohesion Policy held a video conference on 27 March and agreed to appeal to the European Commission to extend the possibility of using the remaining EU structural funds for 20192-2020 for healthcare, entrepreneurship, labour markets and liquidity and to use these funding options with 'maximum flexibility and as quickly as possible'. The Ministers agreed to revise, in one month, if the package of measures under the CRII is enough or not to fight the coronavirus impact. They also emphasised the need to adopt an ambitious EU long-term budget 2021-2027 to continue support in mitigating the impact of pandemic and economic crisis.

It is expected that the impact of COVID-19 will **influence the negotiations on the multiannual financial framework** (MFF) for 2021-2027. There are two options possible: either to fast track MFF negotiations or to agree on the EU budget for one year (2021).

The members of the European Council issued a joint statement **on 26 March** asking the European Commission for an exit strategy, a proposal for a roadmap for a comprehensive **recovery plan** accompanied by an action plan setting out the necessary investment.

In response, on 28 March, the president of the European Commission, Ursula von der Leyen, announced that **the Commission will propose a new stimulus package**, including changes to the EU budget to help the EU recover from the economic impact of the coronavirus pandemic. More details will follow in the weeks and months to come.

2. EU Solidarity Fund and EU civil protection mechanism

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, where EU-level intervention is justified. 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.

The European Commission has decided 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.

3. 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.

4. Horizon 2020 and other centralised funding programmes

The Commission announced **€47.5million** in Horizon 2020 programme funding for 17 shortlisted research projects involving 136 research teams from across the EU and beyond to work on developing vaccines, new treatments, diagnostic tests and medical systems aimed at preventing the spread of COVID-19. A further call for proposals was announced for therapeutics and diagnostics to tackle current and future coronavirus outbreaks, worth **€45million** under the Innovative Medicines Initiative (IMI). In total, the amount of funding for coronavirus research, mobilised from public (H2020) and private (IMI) funding could reach €140 million.

Startups and SMEs with innovative solutions to tackle Coronavirus outbreak were also invited to apply for funding from the European Innovation Council, worth €164 million.

Many Horizon2020 calls have had their deadline postponed allowing more time for organisations to prepare and apply. For example, those under societal challenge 1 (Health, demographic change and wellbeing) are extended by two months. Other funding, like the Rights Equality and Citizenship programme and ERASMUS, are also granting delays to submit the full proposals.

The 3rd health programme has published three additional calls for proposals, where local authorities are eligible to apply, for example to tackle the issue of medical deserts.

5. Mobilising liquidity from European Investment Bank

The European Investment Bank 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.
- Credit holidays (delayed repayments of loans) to help affected companies alleviate the strain on their finances

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; This would be achieved by accelerating and repurposing the EIB's multi-beneficiary intermediated lending facilities and other framework loans so that banks across Europe could specifically come to the aid of impacted businesses.
- Reprioritize some EFSI resources to make working capital available to those who need it the most through the purchase of €2 billion worth of asset-backed securities from banks. This allows banks to transfer risk of existing SME loans to the EIB, freeing up capital to give out new loans. This should also mobilize €10 billion.

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. 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.

6. State aid

To help national governments support their economies, the European Commission has approved 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. The Framework makes clear that such aid is considered as direct aid to the banks' customers, not to the banks themselves, and gives guidance on how to ensure minimal distortion of competition between banks.
- **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.

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 presented that the Commission's Temporary Framework for State aid measures to support the economy in the current COVID19 outbreak constitutes a major step forward. Countries that have taken COVID-19 related State aid decisions at this moment are Italy, Portugal, Germany, France and Denmark.

7. Suspending Stability and Growth Pact

The European Commission will apply the full flexibility of the EU fiscal framework to help member states address the crisis by suspending the Stability and Growth Pact. Specifically, it will until the end of 2020:

- Accommodate exceptional spending to counter the Coronavirus when assessing compliance with the EU fiscal rules.
- Adapt the fiscal efforts required from Member States, taking into account their country-specific situations in case of negative growth or large drops in activity.

Action taken must be "timely, temporary and specific" as said by the European Commission, warning that the additional spending must be dedicated to fighting the pandemic and relaunching the economy, especially supporting the SMEs and the most affected sectors and their workers. The Commission calls on the Council to endorse its proposal as quickly as possible.

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.

8. Support available from the European Central Bank

As of 19 March, the European Central Bank (ECB) has committed to providing 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, as proposed by some, could result in a total financial intervention of close to €2 trillion.

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.

Finally, the ECB will ease the collateral standards by adjusting the main risk parameters of the collateral framework. In particular, it 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.

Sources:

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