



# SME financial instruments in the response to the COVID-19 crisis

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# Outline



- Legislative and organisational changes
- Take up by Member States
- REACT-EU and lessons for 2021-2027

Flexibilities to facilitate delivering support  
through financial instruments in tackling the  
economic impact of the COVID-19 crisis

# Changes in cohesion policy legislation:

Specific to financial instruments:

- Review or update of the **ex-ante assessments** no longer required where changes in FIs are necessary to provide an effective response to a public health crisis
- It is added that financial instruments may also provide support in the form of **working capital** to SMEs if necessary as a temporary measure to provide an effective response to a public health crisis
- Business plans and supporting documents on use for intended purpose no longer required in such a case

# Changes in cohesion policy legislation:

With significant impact on financial instruments:

- Expenditure for operations fostering crisis response capacities is **eligible from 1 February 2020, but after the amendment of the funding agreement** (programme amendments may be adopted later, without delaying deployment of measures from the moment of amendment of the funding agreement).

# Changes in cohesion policy legislation:

With significant impact on financial instruments:

- Temporary relaxation of the requirement to co-finance EU resources. A **co-financing rate of 100%** may be applied to payment for the accounting year starting 1 July 2020. Annual **pre-financing retained** to help liquidity.
- Flexibility to **transfer funds** between the Funds, categories of regions and priority axes.
- **Undertakings in difficulty** receiving support complying with the State aid Temporary Framework or *de minimis* regulations may receive ERDF support as long as they were not in difficulty on 31 December 2019.

## Additional support provided:

- Over 400 very fast replies to specific questions from authorities including:
  - public procurement
  - definition of working capital and required verifications
  - re-financing in specific cases
- May 2020. Fi-compass factsheet:  
[„Responding to the COVID-19 crisis through financial instruments”](#)
- Fast-track approval of programme amendments

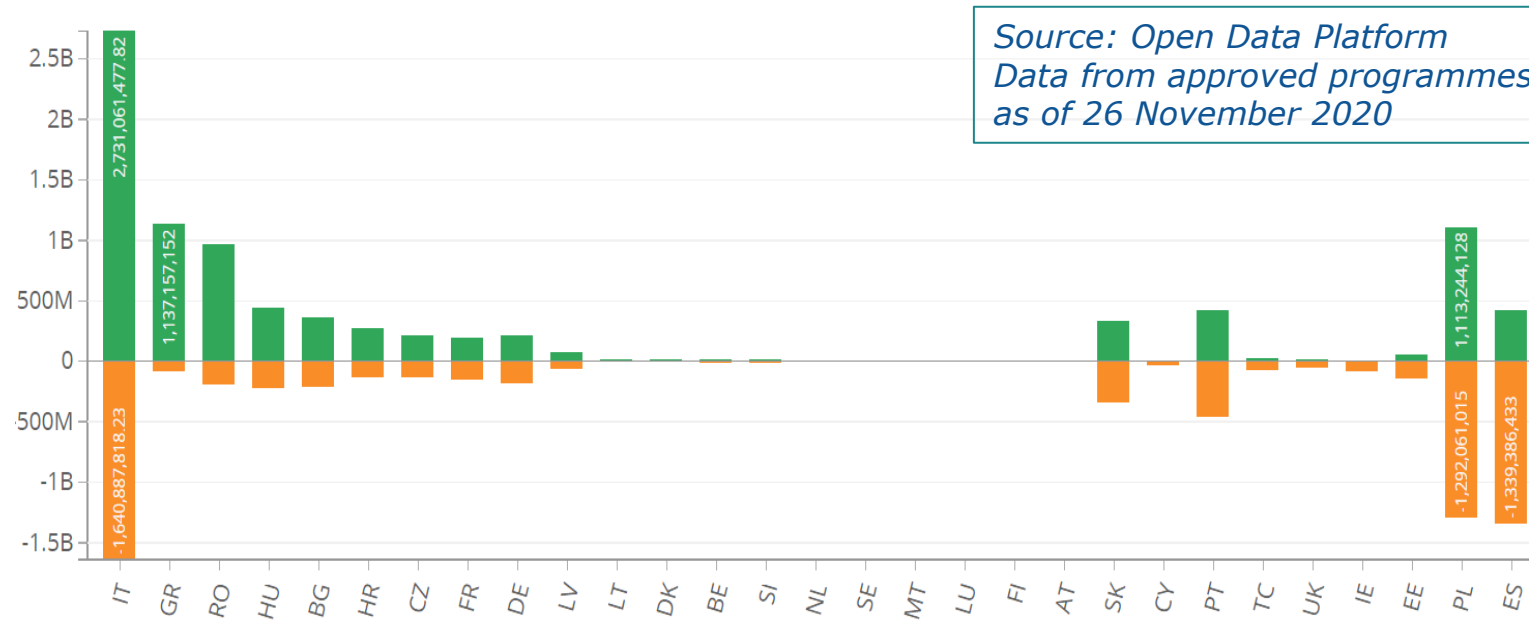


# Use of the flexibilities by Member States

# Coronavirus response in numbers

[Coronavirus Dashboard](#): EU cohesion policy response to the crisis provides detailed data as reported by Member States. The chart below presents changes in planned EU support to enterprises since 1 February 2020.

Green values represent increases. Orange values represent reductions.



# Coronavirus response in numbers

- Overall proposed **13.6%** increase in amount allocated to financial instruments in ERDF and Cohesion Fund programmes (from EUR 24.7 billion to EUR 28.1 billion)
- Financial support for working capital is higher for financial instruments than for grants

Working capital by form of support	EU Amount involved or allocated by MS to COVID measures in EUR (16/09/2020)
Grant or repayable assistance	€ 3.189.039.949
Financial instruments	€ 4.271.600.622

Next steps

## Next steps

- Remaining **programme amendments** to reflect what already happened on the ground
- Continued use of financial instrument under additional **REACT-EU** allocation within 2014-2020 programmes until end of 2023:
  - they benefit from the temporary flexibilities related to the current crisis (except for approval of completed operations)
  - existing FIs could cover the dedicated thematic objective or programme
  - going beyond survival: moving from working capital towards addressing solvency, e.g. through equity/quasi-equity
- **2021-2027 programmes ...**



**REGION Occitanie  
Decentralised Financial Instruments  
using REACT-EU**

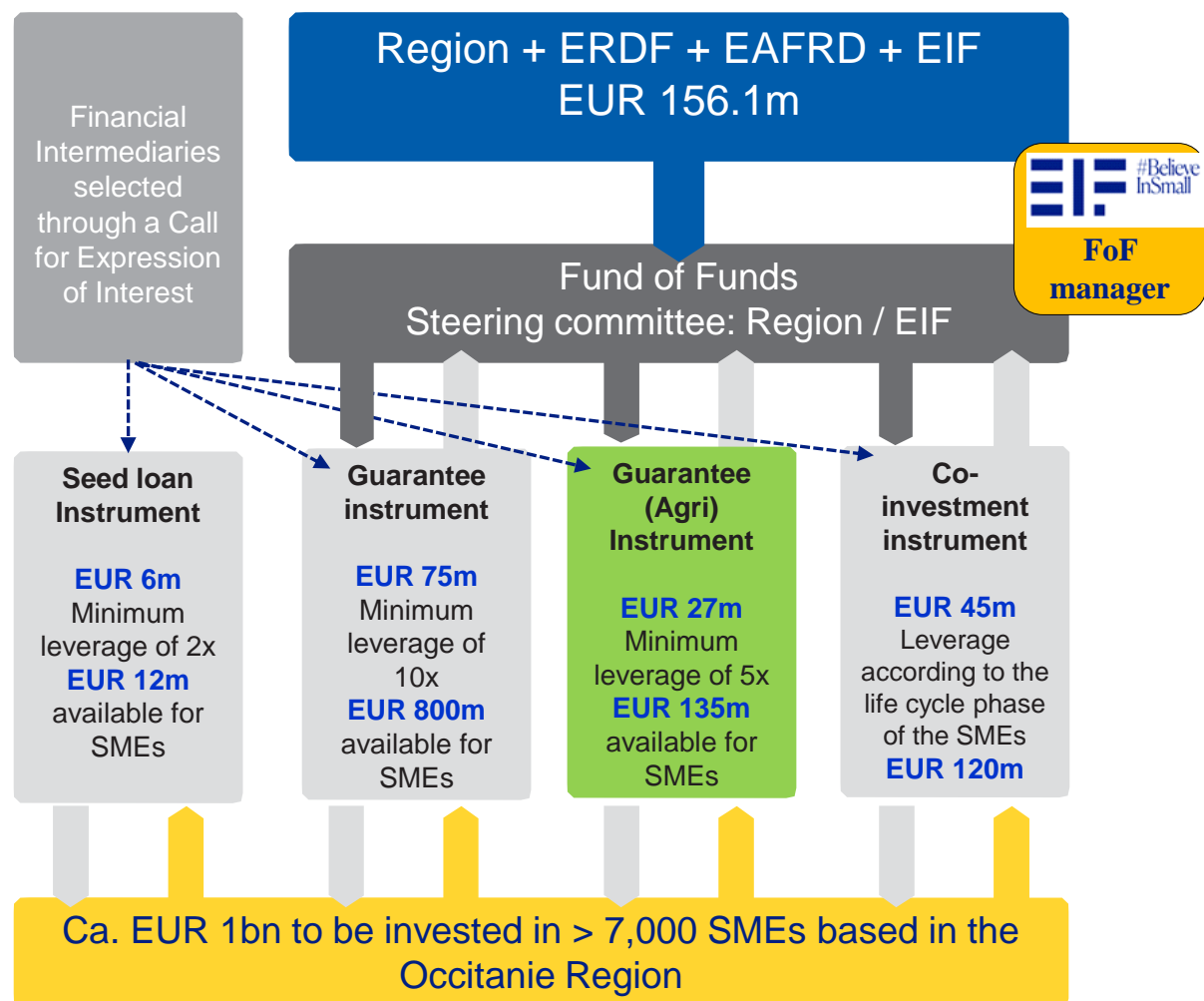
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# FOSTER Occitanie – FoF Structure



- The managing authority [Region Occitanie] entrusted the EIF to act as fund of funds manager for FOSTER, building on the successful collaboration with the EIB Group during the previous programming period;
- EUR 156.1m FoF (various resources ERDF, EAFRD, Region & EIF resources);
- Diversified range of underlying financial instruments:
  - Seed loans to support innovative SMEs
  - Co-investment (equity) to support SMS with high growth potential
  - 2 guarantee instruments: one targeting the agricultural sector and another one focusing on SMEs;
- Eight different financial intermediaries selected through a transparent & competitive process undertaken by the EIF;
- Target : Support 7000 SMEs for more than EUR 1bn.

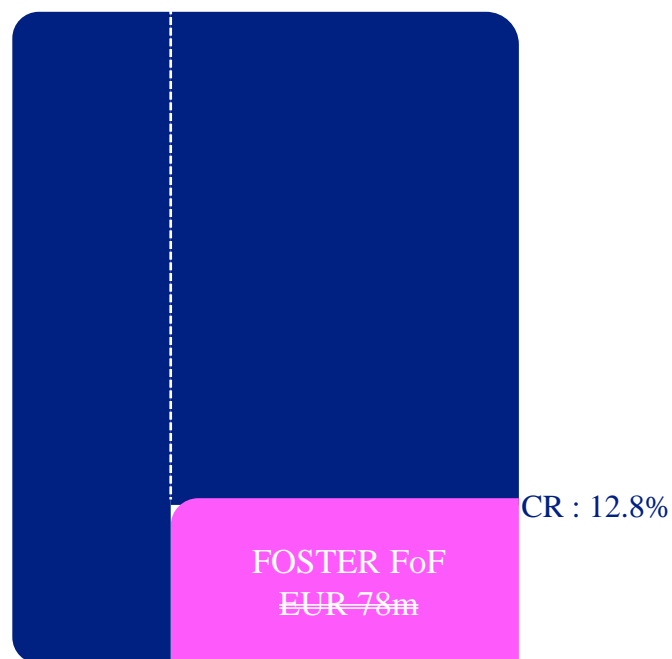
# FOSTER Occitanie – Main achievements (October 2020)

- Around 5 400 final recipients have been supported under FOSTER, for a total amount of approximately EUR 740 million;
- FOSTER accounts for about 10% of new loans to SMEs originated annually in Occitanie; FOSTER reaches 6 SMEs every day (including week-ends);
- Large granularity of the debt portfolio: More than 64 sectors supported;
- Co-investment model: successful in crowding-in private investment in Occitanie. Disbursement is not as good as for the debt instrument. However, Financial Intermediaries have to up to December 2023 to disburse as well as 4 additional years for follow-on investments;
- High level of disbursement in particular for the debt type of instruments [FRSP to support innovative SMEs and FLPG to enhance SMEs competitiveness]; approximately 90% disbursement as of October 2020 when eligibility runs until end of 2023.... → Strong expectation from the market: *what do you intend to do during 2021\_22\_23 to continue to support SMEs in Occitanie?*
- Managing Authority took the decision to increase FOSTER by EUR 25m through newly available REACT-EU resources.



# Approach - Underlying Financial Instrument: First Loss Portfolio Guarantee

Capped Guarantee  
 Portfolio of new loans:  
~~EUR 758m~~ EUR 999m



- Capped Guarantee instrument
- Guarantee Rate up to 80%
- Cap Rate approx. 12.8%
- Pricing: Free of charge
- High Transfer of Benefit negotiated with Financial Intermediaries
- Eligible investments: tangible intangible and WCF (ancillary linked to investments)
- Enhancing SME competitiveness - TO3
- SME in early/creation stage
- Very small enterprises
- State aid regime : de-minimis
- Ensuring high visibility for the Region (Volume)

**Additional contribution:**  
 EUR 25m under REACT EU  
 ie Cap amount of EUR 103m

- **SMEs financing need in France:**
  - With COVID-19 Crisis, France experienced a major recession during the first two quarters of 2020, with investment falling by over 20% on an annualized rate;
  - At the same time, over the next three years, French firms across all regions have ambitious investment priorities, most of which in the areas of capacity expansion and new products introduction/development.

- **Prêt Garanti par l'Etat**

- Significant Guarantee instrument set up by the FR government to support FR enterprises during COVID19 pandemic;
- EUR 120bn / 50% called by entrepreneurs / Mainly for WCF-Tresuary / Temporary framework

- **Subordinated loans / Quasi Equity loans:**

- Aim to be complementary to FR National Initiative and to prepare the foundation of a swift recovery in Region Occitanie;
- Will take the form of a Subordinated loans / Quasi Equity loans for at least 50% of the portfolio to be built up; the remainder will be pure debt type of loan supporting Tangible & Intangible investments;
- It is a Debt instrument [*it is not a convertible loan into Equity*] but is not taken into account for SME indebtedness;
- Therefore helps improve SMEs' financial structure;
- Very risky type of product for Banks / they need a good coverage / EIF signature
- Pricing: higher than standard investment loan / ToB will apply

- **Main features:**

- SMEs based in Region Occitanie;
- Additional support for EUR 241m; at least 50% of this through Subordinated Loans / Quasi equity loans
- Disbursement before 31 Dec 2023;
- Longer loan maturity (> 10 years) / with a Guarantee limited at 10 years;
- Sectors harmed by COVID19 : Tourism, restaurants, convenience stores;
- A grace period of at least 6 months is also expected;
- SMEs with a track record / unlikely new clients;
- Longer maturity / higher risk / no recoveries in case of default – last rank of subordination

