European Commission

SME Envoys - Finance subgroup
2021 Survey on national solvency measures for SMEs during and after the Covid-19 crisis
Main highlights

This abstract provides initial outcomes of a survey that was launched in early 2021 through the SME Envoys Network's financial experts under the patronage of Pieter Waasdorp, the SME Envoy for the Netherlands and rapporteur for access to finance. The aim was to better understand and share what measures are Member States putting in place and planning to address the issues that SMEs have been facing in their access to finance in the Covid-19 and post-Covid-19 crisis.

While bankruptcies among SMEs have not increased much during the pandemic, this is likely due to various temporary government support measures and moratoria on insolvencies that prevent companies from going bankrupt. However, issues could manifest in 2021, where a substantial number of companies may only have limited cash buffers and may need to rely on further government intervention. Such financial pressure may amplify, with insolvencies expected to rise alongside the scaling down of loan schemes, moratoria, tax holidays and other forms of relief.

As most Member States focused their support schemes on debt solutions, many SMEs are reaching the limit of their sustainable debt capacity. Against this over-leveraging, the need for recapitalisation will be most acute for smaller SMEs that have even less access to institutional funding than their bigger peers. Meeting this gap is a challenge that will have to be faced at both EU and Member States' level. In particular, one of the biggest challenges is to design policies that aim at reducing accumulated over-leverage for viable companies, while avoiding the risk of a "zombification" of the economy (i.e. financing non-viable companies).

By means of this assessment, the Commission intends to better understand the situation and exchange good practices on national measures to facilitate recapitalisations, debt conversions and strengthening of SME balance sheets. As announced in the Industrial Strategy recently launched by the Commission[1], an exchange of good practices will be organised among nominated financial experts next September 28th, 2021. As an outcome of the process, a final report with the results of both the survey and discussions among experts will be delivered. Inputs from the measures that Member States have included in their national Recovery and Resilience Plans will also feed the analysis.

1 Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery, COM(2021) 350 final

Main outcomes of the Survey

Member States have announced various measures to address this solvency risk. Based on the results of the survey, some common features[2] could be highlighted:

- In general, a clear demarcation is evident across Member States between initial measures **intended to cover immediate, urgent, short-term liquidity needs** of SMEs and those aimed at addressing the **solvency of viable firms**, often burdened with high debt overhang.
- Member States are addressing solvency issues with a broad range of measures catered to different needs: **there is no silver bullet**. Many Member States put forward a diversified and flexible set of **instruments** that offer all types of financing that strengthens the solvency of the company (e.g. equity and mezzanine financing). The rationale is that the segment of smaller companies is more diverse and therefore requires more flexibility, especially if they have taken on large debt due to the crisis.
- One important element is that the crisis is **enhancing the role of traditional financiers**, which are seen almost everywhere as the main channels of government support. With the exception of Netherlands, Member States rely mainly on **banks and equity/quasi-equity funds** to channel solvency support to the economy, as opposed to more innovative/alternative forms of finance.
- Most Member States highlight that the risk of financing non-viable companies is mitigated by the **involvement of the private sector (banks and/or equity investors)**. No Member States attributes to the public sector only the competence of assessing the viability of companies to be supported.
- In particular, alignment of interest in the design of **debt products** for solvency purposes is guaranteed by **risk-sharing mechanisms between the government and banks** that require skin in the game by financial institutions. In most cases, the State does not guarantee 100% of the loan. The risk assessment of banks, which know their customers intimately, their long-term viability and their repayment capabilities, plays a key role in this process and ensures **no incentive towards adverse selection** e.g. via prolonged funding of zombie firms.
- In the equity space, alignment of interest is ensured by the fact that **governments invest *pari-passu* with private investors**. As in most cases governments match the funding and conditions of private investors, the due diligence of private investors reduces the risk of funding zombie firms.
- Of the different measures put forward by Member States for solvency purposes, **subordinated loans, mezzanine and traditional equity support** appear to be among the most common instruments.
- Only a few Member States, such as the Slovak Republic, put forward **blending schemes e.g. matching** loans with grants.
- In some Member States, the fact that SMEs need to **secure other sources of money besides government financing** in order to access support is a guarantee that aid goes to viable companies. For example, in Czech Republic some financial instruments to be proposed

2 This analysis does not take into account the various liquidity support measures that most Member States have put forward in the immediate aftermath of the crisis to face their immediate cash flow issues.

under the RRF have private co-financing as a precise condition. In Denmark, loan schemes are designed to match equity investments of private investors (mainly angel investors and venture funds) with a loan from its National Promotional Bank.

- Specific design features of some financial instruments, including to comply with **State Aid rules/Temporary Framework**, provide for **additional safeguards against financing zombie firms/overleveraged companies**. A few such examples are the rules on firms in financial difficulties and those limiting loans to 25% of corporate turnover in 2019. Belgium has designed a guarantee scheme that becomes accessible upon fulfilment of certain conditions e.g. that no active credit restructuring is ongoing, no collective insolvency procedures etc.
- On the other hand, the current Temporary Framework's **limit of loan durations to six years is seen in some Member States as a burden**, as a longer repayment period would be an important and non-invasive way of easing firms' obligations and ensuring their long-term viability.
- Some Member State see the roll out of **solvency support measures as temporary**: they will be scaled down as the gravity of the corona crisis decreases. This limited timeframe may address and prevent the risk of a zombification of the economy.
- Finally, beyond financial instruments, several Member States report the usage of **fiscal incentives** e.g. as means to favour equity injections into smaller firms.

Please find below a synthesis of the main solvency support measures put forward or planned in surveyed Member States.

<table>
<tr><th></th><th>Debt/debt-like instruments</th><th>Equity/equity-like instruments</th></tr>
<tr><td>DE</td><td></td><td>The German guarantee banks (Bürgschaftsbanken) provide partial guarantees to secure equity investments in SME. These guarantees are in turn partially backed by a counter-guarantee from the federal government and the respective state (Bundesland). In response to the current crisis, the scope of these guarantees was expanded and the application process simplified. For instance, equity investments of up to 2.5 million Euro can be guaranteed by up to 80% (of which the public guarantee is up to 68 %) in a simplified procedure.

Corona Matching Facility. The funding is provided through private venture capital investors by KfW Capital and the European Investment Fund, as well as through the High-Tech Start-up Fund and the KfW-programme ERP-Startfonds. The Corona Matching Facility is used for funding rounds for start-ups as part of co-investments made jointly with private investors (pari-passu according to the European State Aid-Framework).

The High-tech Start-Up Fund (HTGF) is an early-phase funding programme for highly innovative and technology-oriented companies whose operative business activities were started less than three years ago. An initial funding amount of up to one million Euro is provided, with a total of up to three million Euro usually being available per company.</td></tr>
<tr><td>FR</td><td>In March 2021, the French government announced the deployment of State guarantees to back up to EUR 20 billion of so-called participative loans and bonds. They are similar to equity as they are subordinated to all other debts and often come with a share of profits. But, like loans, they have a fixed interest rate and afford the creditor no voting rights. These financial instruments will aim at reinforcing balance sheet of final beneficiaries.

State support will be in the form of a guarantee to investors that will finance the participative loans and bonds. The loans will have a duration of at least eight years, longer than classic loans for ordinary companies, with repayments starting after four years. Bonds will have to reimbursed only once at the end after 8 years. Participative loans will be distributed through banks and funds. Banks will originate participative loans, will retain part of the risk for alignment of interest and will transfer the rest (90%) to investment funds. Subordinated bonds issued by enterprises are bought by investment funds which are the interlocutors of the State guarantees for their investors.</td><td></td></tr>
<tr><td>ES</td><td colspan="2">In a first phase, Spain adopted a threfold approach: 1. Firstly, implementing liquidity measures through credit guarantee programs for SMEs; 2. Moratoriums on main tax debts, repayment of credits and payment of contributions; 3. Direct aid to face payment and current costs, such as wages and social contributions of workers, rents, etc.

Following that, Spain put forward a restructuring fund (EUR 3 bn) to restructure the debt of companies having received bank loans guaranteed by Instituto de Crédito Oficial (ICO). The mechanism could include hair-cuts as a last resort and will be coordinated by financial institutions, as they have better information on the solvency of companies, and will be governed by a Code of Conduct. The fund will have three levels:
i) Allows to extend the maturity of the loans, over and beyond what was agreed last November, while the possibility to request financing guaranteed by ICO is extended until 31 December 2021.
ii) Converts the loans to equity capital thanks to the public guarantee.
iii) Implies a direct transfer to reduce the guaranteed loan principal for loans taken up during the pandemic.

Finally, Spain launched a recapitalisation fund (EUR 1 bn) to recapitalise SMEs via the public company Cofides. The fund has various debt, equity and quasi-equity instruments and implies that the State will have a claim on part of the future profits during a period of maximum eight years. To be eligible, the company will have to be kept afloat until 30 June 2022 and cannot pay dividends nor increase the pay of the top management for a period of two years.</td></tr>
</table>

IT	**Subordinated loan scheme** ("Fondo Patrimonio PMI"). To have access to the measure companies are required to have approved and executed a fully paid capital increase not lower that 250,000 euro. The amount of the subordinated loan that can be granted is equal to the lower between three times the capital increase and 12.5% of the 2019 turnover;	**Fund for the restructuring of corporates** (M&A, turnaround, debt restructuring). Target firms are: i) firms with historical brands or brands that are strategically important for the country; ii) firms with less than 250 employees; iii) firms that hold strategically important assets or relationships. For firms in financial distress, the Fund will provide an **equity injection**, at market conditions, jointly with a private (third party) investor. **Equity participations Fund** : a special-purpose asset fund dedicated to **equity and quasi-equity interventions** in companies that have generated a turnover above 50 million euro. The fund can grant public support measures or operate at market terms. In the latter case, a private co-investment is required with no exception, not lower than 30% of the overall amount and at the same conditions accorded to the fund.
BE	**Transformation fund** dedicated to firms with min. 5 employees and considered viable at the end of 2019. Funding granted within this framework by the Federal holding and investment company should consist in **capital injections, loans (subordinated or not), acquisitions of shares or investment in other funds.**	
	The **corona-loan** (coronalening) is for self-employed persons (main occupation) and SMEs which consists of a **subordinated loan** with a duration of three years, which can go from 25.000 to 2.8 million euros (can be raised to 4.3 million if there is another financer/ investor). The **ProPulsion loan** is a mechanism of co-financing for Walloon enterprises (mostly SMEs), in the form of a **subordinated loan**, issued by Sowalfin. The amount of the loan ranges from 50.000 to 1 million euro and with a duration which is the same as the bank loans' but the repayments have only to start after 6 months (or can go up to 2 years). Sowalfin has issued also the **ricochet loan,** which is available for small enterprises (less than 50 FTE) or self-employed persons. It is a **mixture of a guarantee** (max. 75% of the bank loan of max. 30.000 euro) and **a subordinated loan** of 50% of the bank loan (up to 15.000 euro) at a zero interest rate, with first capital payment due after 6 months. The total amount of financing can thus go up to 45.000 euro.	**The prosperity fund** (Welvaartsfonds) is a joint project of the Flemish investment company PMV, institutional investors, banking partners, fund managers and private individuals. The fund aims to boost the solvency of companies in Flanders and help them make the switch to a sustainable economy. To this end, the Flemish government has increased PMV's capital by 240 million euro. This fund can invest, alone or together with other financial partners, in large companies, SMEs, start-ups and scale-ups in all sectors. The fund will support intrinsically healthy companies that have a link to Flanders, or let them grow faster in order to strengthen their solvency.
DK	In June 2020, the government introduced Genstartsfonden ("**the restart fund**") targeting SMEs and midcaps of up to 1,500 employees. The fund has a total capacity of DKK 3 billion (approximately EUR 400 million). Genstartsfonden can offer **all types of financing** that strengthens the solvency of the company (**equity and mezzanine financing**). Smaller companies can receive financing from Genstartsfonden with the purpose of sustaining their growth and developing their business if they have taken on large debt due to the crisis.	
SK	The Slovak programme foresees support to companies via **capital inflows or loans**, for bringing to the market significant technological and innovative solutions . Specifically, this applies to the pre-seed phase, which will include certain acceleration co-investment programs in cooperation with "angel investors" as well as the post-VC phase. In the case of support for SMEs through **loan intervention**, it will be the so-called "green" or "digital" loan. It will make it possible to **combine a loan / credit product together with grant funding** to support "green" and "digital" SME topics. Loans could be combined with a grant mechanism in the amount of 10-30% of the loan volume.	
CZ	Czech republic plans to create new **quasi-equity instruments involving mezzanine financing via subordinated debt.** The junior subordinated loan will be provided only with co-financing by another bank in the amount of the subordinated loan. The mezzanine loan will provide the SMEs with a favourable source of financing that behaves similarly to equity. The loan will be subordinated, so that ČMZRB loan will be repaid only after senior liabilities will have been settled. This subordination will enable the SMEs to get other sources of funding. Similarly, CZ intends to launch a **convertible mezzanine instrument** for recapitalisation of SME. Indicative allocation of the mezzanine products is 4 billion CZK.	
NL	Netherlands is planning to put forward a (temporary) **credit facility** of EUR 200 mln. for SMEs. The credit is intended for SMEs that can become **financially healthy again** and are likely to able to develop sufficient viable activities in the future. It contributes to the necessary **working capital for the restart of the company** but also the legal costs for the above mentioned procedure. Its goal is to prevent bankruptcies of companies who severely suffered from the covid-19 crisis but are in essence viable. The average loan will be EUR 75.000.	The **Dutch Future Fund** (EUR 300 mln.) is executed by EIF in close cooperation with Invest-NL. The fund invests in other risk capital funds so that through these investment funds the available amount of capital for Dutch innovative growth companies increases. This measure contributes to strengthening the **equity position** for those companies that are able to attract capital through these funds, and thereby contributes to strengthening their balance sheets. It is directed towards scale-ups and thereby SMEs, and not towards large corporates.

PT		Portugal puts forward the creation of a EUR 1 billion financial instrument to support the solvency for the economic recovery, through **quasi-equity instruments** and capital-markets based instruments. The shares, which are not expected to have a dilutive effect for the current shareholders or to have voting rights, will be managed by Banco Português de Fomento, outside its balance sheet. All sectors will be targeted, with a focus on those most affected by the economic crisis triggered by the pandemic. Companies will be selected by meeting some criteria :(1) financial viability; (2) operational profitability;(3) business model appropriate to current macroeconomic conditions;(4) strategic positioning in relation to national interest.
HR	As part of the measures to support entrepreneurs in activities affected by coronavirus, the Croatian Agency for Small Business, Innovation and Investment has provided the so-called **COVID-19 loans** for micro, small and medium enterprises, with an interest rate of 0.25% and a grace period of up to 12 months. Moreover, a **Working Capital measure COVID-19** is implemented by the Croatian Bank for Reconstruction and Development as a temporary measure within the Working Capital lending program. Purpose of loans are: • financing of current operations • settlement of short-term liabilities to the state and other short-term liabilities, Loans are approved up to HRK 100,000 with interest rate of 2.00% for up to 3 years with grace period of 1 year.	**Private equity funds top-up / co-investment facility** is planned under RRF national plan. Croatian bank for reconstruction and development as implementing body is planning to rely on fund management companies which are expected to provide capital solely SME's and mid-caps with sound and viable business plan.
IE	In response to the Covid-19 crisis, the Minister for Finance announced a new EUR 2 billion sub-portfolio to be set up within the Ireland Strategic Investment Fund, the **Pandemic Stabilisation and Recovery Fund ("PSRF").** The focus of the PSRF is to invest on a commercial basis in businesses which have been negatively and materially impacted by the COVID-19 pandemic. The PSRF has a focussed approach in supporting Irish businesses and the wider Irish economy respond to the disruption and uncertainty caused by the crisis. The PSRF has the flexibility to provide either **debt, equity, or hybrid funding solutions** depending on the specific funding requirements and repayment capacity of the business. The objective of this commercial flexible approach is to avoid over-leveraging of businesses balance sheets and provide appropriate equitisation. The **Sustaining Enterprise Fund** is a key funding response to Covid 19. It was developed by Enterprise Ireland in April 2020, in conjunction with the Department of Enterprise, Trade and Employment. The purpose of the Sustaining Enterprise Fund is to sustain eligible manufacturing and internationally traded services companies, employing 10 or more employees, who have been negatively impacted as a result of the COVID-19 outbreak. This fund will ensure eligible companies have access to the necessary liquidity while also sustaining business so that companies can return to viability and contribute to the recovery of the Irish economy. The funding provided is a combination of financial instruments -both r**epayable (debt, equity, repayable advance) and non-repayable (grant aid)** support.	
	Ireland has implemented a number of scheme, including: - The **Future Growth Loan Scheme** (FGLS) is a long-term loan facility (7-10 years) underpinned by a counter guarantee from the European Investment Fund. The initial EUR 300 million FGLS was delivered to the market in April 2019. The capacity of the FGLS was increased from €300m to €800m at the end of July 2020. Lending through the Scheme is made available to SMEs and small mid-caps through a number of financial providers. - The **Local Enterprise Office Client Stimulus scheme** funded through the 2020 July Stimulus aims to sustain eligible businesses through the provision of a cash stimulus to support operational costs and enhanced engagement with their Local Enterprise Office. The funding is provided through an immediate cash contribution to support liquidity and could be used to cover ongoing operational costs, for example, utilities, insurance, refurbishment or for measures to ensure employee and customer safety and welfare. - The **Strategic Banking Corporation of Ireland (SBCI)** provides both liquidity and risk sharing programmes via approved on-lenders to benefit Irish SMEs and Small Midcaps by offering flexible products with longer maturities and capital repayment flexibility at a lower cost. SBCI does not deal with large corporates. - The **Covid Credit Guarantee Scheme (CCGS)** and **Covid Working Capital Scheme (CWS)** are the loan schemes operated by the SBCI that were created to support businesses impacted by Covid. CWS provides business with funding for future cashflow requirements to fund innovation and change or adaption of the business to mitigate the impact of Covid 19. CCGS allows refinancing of Covid related expenses that were initially funded through short term/temporary facilities such as overdrafts.	

GR	The **Entrepreneurship Fund II** was in place before COVID and co-funded by national and European sources with the total amount of almost EUR 1 billion. To address the negative consequences to the economy caused by the COVID-19 pandemic, subprograms 3 and 4 were established in the form of an interest rate subsidy for working capital Moreover, the **COVID-19 Business Guarantee Fund** aims at guaranteeing working capital loans issued by the banks in favour of SMEs, as well as the large firms of the private sector. It concerns a portfolio guarantee fund which provides a guarantee rate up to 80% per loan. The Guarantee cap is defined up to 40% for SMEs and 30% for large companies. Eligible were considered viable companies i.e., as those which have the ability to receive a loan in accordance with bank's credit policy and the internal procedures of credit institutions. The guarantee rate is defined to 80% per loan while the guarantee cap up is determined to 40% for SMEs and 30% for large companies. **Subsidy Loans** for Existing SMEs Loans Affected by the COVID-19. The program concerns the subsidy of the interest rates for existing SMEs loans which were affected negatively in economic terms by the measures against the spread of COVID-19 pandemic. The program provides direct subsidies to SMEs for covering current contractual interest rates of SMEs' loans (e.g., securitized loans, bond issue loans, credit agreements and lines of credit) as well as the corresponding contribution of Law 128/75 of the loans of eligible companies up to EUR 800.000 per company. The subsidy applies to current overdue loans, bond loans and credit agreements, including securitized loans and credits as well as transfers due to loans transferred and credits according to national legislation.	