Report

Solvency Support Instruments

Report from member organisations

This document summarises the results of the survey regarding the actions undertaken by different Member States in terms of solvency support instruments for SMEs in Europe. The results are based on the replies from SMEunited member organisations from different countries. The document covers fourteen Member States and the UK.

1. SMEs & Indebtedness

In order to face the crisis a variety of liquidity measures was approved by governments. This measures helped to face the lack of liquidity in the short run. However, when the time will come to pay back for these instruments the risk of over-indebtedness and insolvency will appear, affecting many SMEs. The number of insolvencies has not yet reached high levels, also due to postponements of tax and social insurance contributions and the deferrals of interest and insurance payments. If these have to be paid back, the risk of bankruptcy will certainly increase. In addition, the second wave of the virus which is currently affecting Europe, will worsen the situation.

Looking at the indebtedness levels for different countries, in France, 47% of entrepreneurs (52% in the very small enterprises) say that the sustainability of their company is potentially threatened. A similar picture is present in Italy, where 52% of the SMEs interviewed are concerned about the lack of liquidity they will have to face until the end of 2020 and may not be able, to cover their expenses. On the other hand in Germany, 80% of SMEs in the handcraft sector currently see at least no risk of over-indebtedness.

Considering the situation, it is fundamental to adopt different solvency support instruments to avoid the debt of viable SMEs to reach unsustainable levels and reduced the creditworthiness of these companies. Given the importance of the topic and the presence of an extremely heterogeneous picture, SMEunited wants to provide information on already existing and planned solvency support measures for the different countries, to spread best practices on instruments which work.

2. Overview of Existing Solvency Support Instruments

Solvency Support Instruments					
Country	Subordinated Loans	Silent Participation	Repayable advances	SME Equity funds	Other instruments
Austria					
Belgium					
Bulgaria					
Cyprus					
Finland					
France					
Germany					
Hungary					
Ireland					
Italy					
Lithuania					
Poland					
Romania					
Spain					
UK					

The table shows the results of the Survey conducted by SMEunited.

Green - instrument is active, Yellow - instrument is under consideration, Red - the instrument is not active or taken under consideration.

Before starting our analysis, it is important to underline that the yellow label for Bulgaria, Hungary, Ireland, Lithuania, Poland and Romania, was used to express that for these countries the Commission has approached a State aid scheme under the Temporary Framework, which includes solvency support measures. Nevertheless, we do not have any information on the effective status of instruments

within the countries (i.e. if it is already active or not), and therefore we decided to label them as Under Consideration.

Subordinated Loans are on of the most popular kind of interventions chosen by countries to support the solvency of SMEs. Indeed, seven countries among the fifteen surveyed approved or are planning to approve such an instrument. In the case of Germany subordinated loan schemes were already present in the past and nothing new has been activated. France has instead a participating long-term subordinated loans scheme, which corresponds to quasi-equity loans towards SMEs and mid-caps in order to support their capacity to invest. The overall volume is estimated to range between €10 to €29 bn. In Spain, subordinated loans are under consideration.

For what concerns silent participation three of the analysed countries have already approved measures under this scheme and three others have this instrument under consideration. In particular, the Federal Ministry of Economics and Technology in Germany has approved a Support for Start-ups in crisis scheme. The public involvement will be co-investment and the overall amount is €2 bn. Also in Austria silent participation schemes are already existing.

Repayable advances is the least common instrument used, with only Belgium and Austria using it and France, Finland and Ireland having it under consideration it.

SME Equity funds are already active or at the centre of the debate in all the surveyed countries, apart from Cyprus. As stated above, in the case Bulgaria, Hungary, Ireland, Lithuania, Poland, Romania this instrument has been labelled "Under Consideration", as we do not have any other update apart from the approval for the countries to use State Aid under the Temporary Framework.

SME Equity funds are already active in Italy through Invitalia (an in-house company of the Ministry of Economic Development) and is named Capital Strengthening of SMEs. The Fund operates through the underwriting of bonds or debt securities issued by companies that have carried out a capital increase of minimum €250.000. The public involvement ranges between guarantee and co-investment. The overall volume is €4 bn.

Equity funds are being considered in Spain, with the "Instrumento de Solvencie para Pymes". In case it will be approved, this €10 bn fund will support Spanish companies with subordinated loans, equity, convertible bonds, and other instruments to raise their solvency.

In Austria, equity funds are already active and additional ones are currently under consideration. In particular, the Equity Fund will have an overall volume of €70 Mio and will provide forms of investment-co-investment to SMEs.

In France strengthened equity capital of French start-ups and SME with the Fund for the reinforcement of SMEs, having an amount of €100 Mio operating under the form of convertible bonds. The fund is aimed at strengthening the equity capital of

French start-ups and SMEs with the launch of two vehicles: the "Fund for the reinforcement of SMEs" and the "French Tech Bridge".

Lastly, Belgium is considering to establish a Welfare Fund to boost the solvency of companies in Flanders. Private individuals will also be able to invest in the fund, enjoy fiscal advantages in exchange.

Finally, in Cyprus no national solvency support instrument for SMEs has been approved or planned yet. The government instead committed to monitor the situation and act quickly if/when necessary. The number of SME insolvencies will depend on the developments concerning the pandemic and the tourism sector, which represents a key industry for the country.

More information about the mentioned instruments can be found in the annex.

3. Policy recommendations

Measures to avoid over-indebtedness and the loss of creditworthiness of valuable companies is a precondition for recovery in the SME sector. Therefore, SMEunited regrets that the European Council not approved the proposal for a European Solvency Support Instrument and recommends to European and national policymakers:

- to ensure the support of equity and quasi-equity instruments by programmes like InvestEU and the new European Guarantee Fund of the EIB Group;
- to include Solvency Support Instruments in the up-coming National Recovery and Resilience Plans;
- to use European Structural Funds and the REACT-EU Facility to provide solvency support to SMEs;
- to provide tax incentives for private investments in SMEs;
- to reduce the debt-equity bias in income taxation of private companies;
- to provide Early Warning Mechanism for SMEs at risk of insolvency.

Furthermore, SMEunited invites financial intermediaries at national and European level to assess their existing instruments, if they are appropriate to reply to the current challenges, to adapt them when needed and to provide additional instruments as a response to the exceptional situation.

Please do not hesitate to contact Gerhard Huemer, Director for Economic and Fiscal Policy (Email: g.huemer@smeunited.eu) for further questions.

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Annex

Country	Instrument Name	Description & Link
Austria	Package for Start-ups	Innovative start-ups receive a subsidy for private investments that have been made since the outbreak of the COVID crisis. **Link**
	Venture capital funds for Start-ups	In order to mobilize investors who have provided fresh money for these funds since the outbreak of the COVID crisis, AWS assumes a capital guarantee of up to 50% of the fund volume. **Link**
Belgium	Welfare fund	PMV will set up a welfare fund that can boost the solvency of companies in Flanders. Private individuals will also be able to invest in the fund enjoying a fiscal advantage. Look at point 2 of the **Link**.
	Subordinated loans	Sowalfin / SOCAMUT launch in April 2020 a subordinated loan scheme. Maximum volume 15.000 EUR with a grace period of 6 month and alongside a normal bank loan - **Link.** Furthermore, Sowalfin intends to use new EGF for a further subordinated loans scheme.
France	French Tech Bridge	The initial envelope of 80 million euros of the fund will make it possible to mobilize 160 million euros of quasi-equity for French Start-ups. **Link**
Germany	Guarantee Bank Fund	Guarantee banks provide help for SMEs with a loan volume of over one billion euros. **Link**
	Support for Start-ups in crisis	Support measure for start-ups in crisis made of two main pillars. The first is Corona Matching Facility and the second is for start-ups and SMEs without access to the first pillar. **Link**
UK	Future Fund	The Future Fund provides government loans to UK-based companies, subject to at least equal match funding from private investors. **Link**