

POLICY BRIEF

Covid-19 and the Need for Action

THE EUROPEAN RESPONSE TO A NEW SOCIO-ECONOMIC CRISIS

For the first half of 2020, the worldwide economy has been reshaped by the **COVID-19 pandemic**, putting Europe in front of an unprecedented **economic, financial and social shock**. Healthcare systems have been overwhelmed, lockdown measures have affected various aspects of our social and working life, and millions of European citizens fear losing their jobs and facing harder living conditions. This has brought major repercussions for our economies, with dire consequences for the **social economy** and **social enterprises**. The EU has re-evaluated its potential to deliver a **coordinated and powerful collective response**, both from the side of public and private actors, to attenuate the economic consequences of the Coronavirus crisis. The **flexibility of the Commission and quick adaptation** are strongly visible not only in the proposed emergency solutions/instruments for recovery, but also through all the planning of the next Multiannual Financial Framework. At the same time, the **Social Economy's financial response** has contributed to all these public initiatives mainly through **crowd- and match-funding mechanisms**, as well as non-financial support pushing for a quicker recovery.

GREAT UNCERTAINTY: UNPRECEDENTED EU FINANCIAL RESPONSE

In the recent times of great uncertainty, obligatory lockdown, and other necessary restraints on our individual freedom, the **economic activity suffered major changes** and the labour market has been highly affected. Unemployment levels rapidly increased during the COVID-19 health crisis, considerably contributing to a post-COVID19 economic crisis. According to the OECD, the unemployment rate might end up being higher than during the peak of the global financial crisis of 2008.¹ Under the

current economic shock, many organisations (mainly SMEs) have frozen hiring and put part of their workforce on hold through subsidised job-retention schemes.

To ensure a **sustainable, fair and inclusive recovery** within all the EU Member States, the European Commission decided to move forward and not to return to the pre-crisis status quo². In this regard, the EU institutions proposed an unprecedented set of measures, **some of them waiting to be approved and introduced under a new legal framework**.

The short-term damage has started to be repaired through long-term investments for the future. To mobilise the necessary investments, the Commission has put forward a two-fold response: the new recovery instrument of EUR 750 billion under the proposal of **Next GenerationEU**, and a **reinforced budget for the next programming period (2021-2027)** totalling EUR 1 074.3 billion. For the same big goal, the **SURE instrument - "Support to mitigate Unemployment Risks in an Emergency"** was already adopted to ensure that workers receive an income and businesses keep their staff, trying to solve the unemployment challenge. Concretely, the SURE temporary instrument **"act as a second line of defence"**³, protecting employees and self-employed against the risk of loss of income and unemployment. It was established exclusively to fight against COVID-19 economic outcomes being complementary to the EU funds.

SURE EMERGENCY INSTRUMENT MECHANISMS

HOW IS SURE PROGRAMME FINANCED?

The purpose of SURE is to **provide liquidity support for short-time work schemes** and similar measures in order to preserve jobs, sustain incomes, help the self-employed,

¹ OECD, (2020) "[Employment Outlook 2020: Worker Security and the COVID-19 Crisis](#)"

² Ursula von der Leyen's announcement speech "Next Generation EU" https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940

³ European Commission (2020), Press Release: "[SURE: A European instrument for temporary Support to mitigate Unemployment Risks in an Emergency](#)"

and support companies. It favours a swift recovery, prevents long-lasting economic and social damage and preserves EU's economic structures. However, the instrument does not directly finance these measures. The support given is in the form of loans to the Member State which can decide how the measure will be designed and addressed.

In terms of financing mechanism, **SURE is based on a lending scheme** of up to EUR 100 billion **underpinned by a system of guarantees from Member States**. The EU can borrow on the markets by issuing bonds with low interest rates, and then lends on the proceed to the Members States concerned⁴. To have the possibility to borrow, the EU needs to provide a guarantee from its budget's margin that can be used in times of emergency. However, 2020 has no margin left as this was already used or it

was reallocated in different programmes or funds (e.g. Just Transition). Under these conditions, the European Commission brought to the discussion table an innovative solution: each Member State can voluntarily agree to give this guarantee, proportionally to its size, bringing to the EU up to EUR 25 billion. With this amount, used as a guarantee, the EU can go to the market and borrow, keeping its triple A rating.

Every Member State can request this financial assistance by showing that they have a sudden increase of expenditure (following the process from Fig 1). There is no established territorial distribution/predetermined quota, the only condition referring to the fact that the three largest loans together cannot exceed EUR 60 billion.

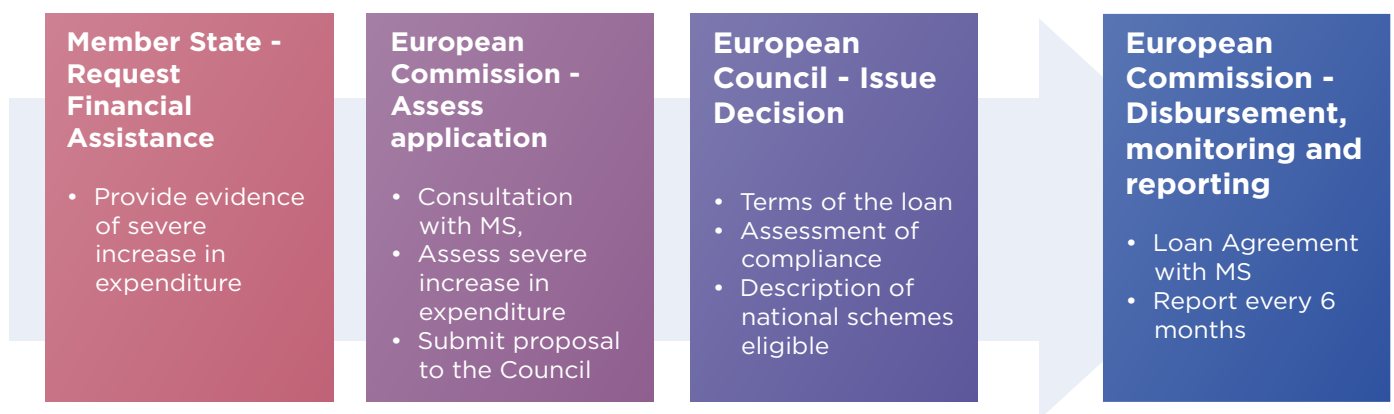


Figure 1. SURE procedure of accessing the financial resources - compiled by EVPA based on the EC presentation during the EVPA webinar on “Covid-19 and the EU Response: How “SURE” will Europe Be?”

SOCIAL ECONOMY RESILIENCE DURING COVID-19

PRIVATE SECTOR FINANCIAL RESPONSE: CROWD- AND MATCH- FUNDING

The **support for recovery** has come not only from the side of public institutions, but also from **private actors**. Social investors and philanthropies across Europe have been quick to respond to the negative effects of the pandemic, expressing solidarity with social purpose organisations (SPOs) and beneficiaries by bringing more flexibility in their current arrangements and switching the focus of their investments.

The social economy suffered from the crisis in the immediate term, recording a huge drop in revenue, mainly for SPOs in such sectors as culture, tourism, or social services, where there is a direct contact between the targeted group of clients/beneficiaries and people that are running the businesses. In the majority of the cases, these sectors are represented either by start-ups or local initiatives. The limited financial stock has exposed these enterprises to the risk of total closure/ bankruptcy in less than 4 months.

However, these constraints and challenges have also generated important transformations of the economy with regard to key **future investments, new networks** and **innovative financial tools** that have been developed specifically for the social economy by social entrepreneurs

⁴ Matteo Duiella presentation (Slide 6): <https://evpa.eu.com/events/event/20200625-policy-webinar-covid-19-and-the-eu-response-how-sure-will-europe-be/>

to revitalise small businesses and local social enterprises. In this new situation, two important financial schemes popular in the impact investing world and within finance communities received more attention, and have been incrementally reshaped: namely crowdfunding and matchfunding.

After the crisis of 2008, **crowdfunding** expanded from being mostly donation based to include more investment-type mechanisms (e.g. equity based crowdfunding). Since the COVID-19 pandemic, local initiatives have been in urgent need of quick monetary response and aid-capital, temporarily marking a U-turn in the evolution of crowdfunding, back towards a financial process based on donations.⁵ The main characteristic of crowdfunding is the ability of local and physical campaigning besides the online element, and this element was matching with the trend of the last period: “In times of crisis people are just more willing to donate money for local social projects”.⁶

During the last couple of months, social investors have tried to solve problems in the short-term, and at the same time they got closer to other types of financial platforms and resources for the long-run. Through **matchfunding**, which is less popular than crowdfunding for many social finance stakeholders, different types of investors (governments, foundations, banks and agencies, etc.) have been involved in joint investments. The primary 2 benefits of this financial mechanism are that (i) all the resources collected by crowdfunding are topped-up with additional resources of investors and (ii) it is based on a local ownership model, meaning that it

is critical to have the validation of the local community towards/on the business model/idea/ goal. Moreover, **matchfunding is a simple tool to support over time the InvestEu Fund** or other financial instruments developed at the EU level.

PRIVATE AND THIRD- SECTOR INITIATIVES DURING COVID-19 CRISIS

SHIP2B’S NETWORK – BEST PRACTICES AND LESSONS LEARNED

With its final goal of **boosting the Impact Economy**, a model where the main purpose of companies, investors and organisations is not only to maximise their economic profitability, but also their social and/or environmental impact, **Ship2B has managed to play a catalytic role** during the COVID-19 health crisis.

Being one of the most active Spanish foundations during this crisis period, Ship2B has collaborated with its network on various operations such as providing updated information on the financial and health measures at the national/EU level, ensuring technical assistance for start-ups and SMEs, and channelling microdonations to fund COVID19 research and to mitigate the effects of the pandemic among the most vulnerable groups. The foundation has confronted the current economic crisis by **strengthening the community support and conducting digital operations** with its stakeholders such as virtual programmes, training sessions, or the future Impact Forum.⁷

IMPACT STARTUPS	NON PROFITS & SOCIAL ECONOMY	CORPORATIONS	INVESTORS
<ul style="list-style-type: none"> Agile response to maximise impact and ensure financial sustainability Reducing pressure on the care system by offering a safe at-home alternative, while creating quality employment for carers 1,000+ free remote psychological assistance resources Free support for students to learn and read from home Channelling microdonations to fund COVID-19 research and to mitigate the effects of the pandemic among the most vulnerable groups 	<ul style="list-style-type: none"> Providing direct care support for the most vulnerable Rapid Digital Transformation Daily telematic monitoring of beneficiaries Online training and services Reshaping and refocusing their activities 	<ul style="list-style-type: none"> Innovation, collaboration and solidarity Impact Innovation - assessment Resource sharing Collaboration and solidarity 	<ul style="list-style-type: none"> Alliances and non-financial support Call to finance startups facing Coronavirus - together with La Bolsa Social Challenge COVID19 to finance health startups

Figure 2. Ship2B’s Community Response - Ensuring collective resilience through collaboration within the Impact Ecosystem

⁵ Karel Vanderpoorten. (2020) *EVPA Policy Webinar: “COVID-19 and the EU Response – How “SURE” Europe will be?”*

⁶ European Commission, (2020) *“Online Session 3: Alternative finance - crowdfunding & match funding”*

⁷ <https://impact-forum.org>

For the coming months, Ship2B intends to focus its activity on **securing future budget** to keep supporting stakeholders' road to impact after the crisis and **developing local/international alliances and partnerships**. During this period new challenges were identified, hence, Ship2B highly encourages SPOs (Social Purpose Organisations) to **leverage digital tools as a fast-track route to their mission** and to put efforts in the development of **new products and markets**. At the same time, Ship2B and its network will continue the work started on technical assistance (impact measurement, management & maximisation; strategy, innovation & business model; communication, etc.) and exploration of new financing instruments such as the opportunity of venture philanthropy approaches (soft loans, patient capital etc.).

UNITUS EUROPE HUB⁸

European philanthropy and social investing networks have come together in an informal alliance to ensure that the diverse work they are undertaking is both efficient and achieves the best possible impact for all its beneficiaries. We aim to support and to give guidance to suppliers of funding, such as foundations, social investors and public funders, throughout the survival and the revival phases related to the COVID-19 crisis, with a focus on trans-national and cross-border activities in Europe, and beyond. The aim of the "Unitus Europe" hub is to become a valuable space for sharing information, resources, and good practices to inspire other actors, gaining new insights through peer-learning and identifying opportunities on the demand and supply side. This is the opportunity to ensure a collaborative and cohesive response to the crisis, by giving easy access to valuable information resources across Europe and beyond and launching joint initiatives.

MORE INFORMATION

In June 2020, EVPA organised a webinar titled "**Covid-19 and the EU Response: How "SURE" will Europe Be?**". The webinar started with an introduction by Matteo Duiella (*Economic Data Analyst, DGEMPL, European Commission*) on the European Commission's programmes designed to face the economic consequences of COVID-19 pandemic, focusing on the SURE programme. Afterwards, Karel Vanderpoorten (*Policy Officer, DG GROW, European Commission*) highlighted the important role of social economy's financial response through crowd- and match-funding and the mobilisation of private resources within the COVID-19 crisis.

Cristina San Salvador (*Expansion & Program Development Manager*) from Ship2B followed with challenges faced by practitioners and their best practices in confronting the current Coronavirus outbreak and its effects. The session ended with many questions asked and a useful discussion by the speakers. A recording of the webinar is available on [EVPA's website - here](#). EVPA's Policy team is also available to provide more information on these or other policy-related topics. Do not hesitate to contact the EVPA Policy team at policy@evpa.eu.com

⁸ <https://unituseurope.org>