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To:
Mr. Nicolas Schmit
Commissioner for Employment and Social Rights
European Commission

Brussels, 20.05.2020

Subject: FEBEA's response to the COVID-19 crisis. Expectations from the EU and the EaSI Program

Dear Commissioner Schmit,

the last two months have seen our world change. The arrival of the COVID-19 epidemic to Europe and the threat that poses to the lives of our most vulnerable citizens has had unprecedented consequences. Our, not so long ago, vibrant economies have been brought to a standstill, our social, cultural, and political life has been reduced to virtual reality and our citizens have been forced into lockdown to protect themselves and others.

In the meantime, while most of us retreated into our homes, our public servants, our doctors, and nurses, our social workers have faced this unprecedented crisis, often with insufficient means, saving lives, protecting others while keeping our fragile societies in place.

Our governments have also taken extraordinary measures in terms of restricting civil liberties, limiting our travel and movement, closing borders, and keeping all but the essential workers at home.

This sudden interruption of economic life, in nearly all fronts simultaneously, is taking an enormous toll on the activities, financial health, and development possibilities for the majority of businesses in Europe.

Many unprecedented measures to mitigate the economic impact of this situation have been taken by the EU and the majority of the member states. Such measures include providing temporary unemployment benefits to millions of European workers, introducing moratoriums on the repayment of mortgages and business loans, postponing the payment of taxes, providing guarantees to banks to provide liquidity to SMEs and large companies, etc.

In this crisis, the positive news is that the reaction of the EU and its members has been much faster and resolute than in the previous financial crisis.

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The impact of the Covid-19 crisis on the Social Economy

FEBEA and its members have been witnesses to the immediate impact of the crisis on the social enterprises and social economy organisations, that are their partners and clients.

The sudden interruption of economic life means that a majority of Social Economy organisations in Europe, similarly to SMEs, are suffering a drastic reduction in their economic activities and consequently their revenues. This puts at risk the jobs and viability of many social economy organisations and impacts negatively the beneficiaries of their activities, which are often the most vulnerable groups.

The mitigation measures introduced by Member States in regards to applying moratoria on the repayment of loans -capital and at times interest as well-, provision of liquidity and guarantees for new bridge loans are designed for SMEs. Even if nominally they include Social Economy organisations, in practice do not apply or leave many of them behind.

In this context, Ethical Banks and financiers, who are not necessarily included in the measures from national governments, launched through the regular banking sector, have had to adapt to the new situation.

First of all, FEBEA members -Banks and non-banking financial institutions- have moved in record time their entire operation online and have continued to serve their clients without major disruptions.

Secondly, they have introduced voluntarily, similar moratoria on payments of loans to those of regular banks, allowing for up to 6-months suspension -3 month renewable- on the payment of capital -in certain cases interest too- upon the client's request.

Thirdly, they have dealt with the first large wave of rescheduling requests for payments in the loans of their clients as well as new loan requests linked to the crisis.

However, in the long run, this situation may prove unsustainable for financial intermediaries as well. The risk on their existing loan portfolio will continue to increase, together with the cost of managing such risk. The level of repayments is likely to suffer once moratoriums start to expire, and their income will be reduced at the same time through the combination of fewer new loans provided, losses incurred, cost of risk, and cost of the moratoria.

In essence, the vulnerable situation of their social economy clients, will put the intermediaries in due time in a situation of vulnerability as well.

What to do?

Given that the majority of Member States, so far, have not included the Social Economy sector in the measures launched to mitigate the effects of the crisis on the economy, we expect the EU Institutions to step in.

The reason for doing so is twofold. On the one hand, the European Commission for the first time in years, has now a clear mandate to develop the Social Economy Sector, as stated in by President Von der Leyen in its Mission letter to Commissioner Schmit.

On the other hand, the social economy, together with a strong green agenda, will be key components to rebuild our economies and societies on different terms than those that led us to the current Covid-19 crisis.

Those two reasons justify that the EU takes a specific interest in preserving the Social Economy sector now, and invest in its development in the future.

Having surveyed a representative sample of our members on what they expect from the EU in the coming months, a clear message emerges from all of them. The European Commission should make the most of the existing EaSI instruments to support the social economy sector.

First, the European Commission has the opportunity to send a strong message to the Social Economy in Europe stating that it will do “whatever it takes” to save as many Social Economy organisations as possible.

Second, to maximize its support to the Social Economy in the months to come, the European Commission does not need to create any new instruments, but rather introduce maximum flexibility into the existing EaSI Instruments to realize their full potential and combine their effect to reach maximum results. Future support for the reconstruction can be tailored through InvestEU or the through the EU Reconstruction Fund, once the effects of the crisis are clearer.

How can FEBEA and its members support EU efforts?

FEBEA members are already putting their capital, systems, networks, experience, and personnel at work to support Social Economy organisations. This can be boosted by the European commission by introducing flexibility into the existing guarantee agreements, by providing additional funding to financial intermediaries at market rates, by supporting the reorganization of their activities to better support social economy organisations.

Two-thirds of FEBEA members have currently Guarantee agreements from the EaSI program, which are bringing concrete results. Such financial intermediaries are an ideal base to support the Social Economy in the current crisis. We are convinced that EaSI guarantees are the best possible tool, to allow time, flexibility and liquidity to social economy organisations. Such combined measures can help many Social Economy organisations stay afloat.

The following recommendations are concrete ways to introduce flexibility into the existing EaSI Instruments and maximize their impact.

Recommendations to boost the impact of EaSI Guarantees

- Increasing the Cap rate on EaSI guarantee agreements up to 30% to boost their impact
- Increasing the Guarantee rate to 90% percent (and 100% for particularly vulnerable sectors)
- Increasing the effective coverage of the guarantee by adjusting the recovery rate
- Allow the inclusion of Social Economy organisations with prior debts
- Allow the rescheduling of existing loans under guarantee
- Allow the inclusion of Microfinance organisations as beneficiaries to provide liquidity
- Allow greater flexibility in the financing limits per company - now at 500K €
- Allow an extension to the terms of the guarantee period

The combination of such flexibility measures will boost the effect of EaSI Guarantees, allowing FEBEA members to better serve their existing Social Economy clients and include new ones under the umbrella of the EaSI Guarantee. This will allow Social Economy organisations to restructure their debt at a time where they have seen their incomes drastically reduced, access liquidity when is most needed, and buy them time.

Recommendations to boost the impact of the EaSI Funded Instrument

- Facilitate access to EaSI Funds at market rates
- Conclude agreements under negotiation speedily

The main reason why FEBEA members have not been interested in accessing EaSI Funded Instruments is that the cost of the proposed funding is simply too high compared to the market. By adjusting the cost of funding during the current crisis period, the European Commission can ensure that intermediaries have enough funds to make the most of EaSI guarantees, particularly NBFIs who will have difficulties in fundraising in the uncertain times ahead of us, as well as Banks who need to comply to Regulatory ratios and will need to raise additional capital if they want to increase the levels of risk in their portfolios. The speedy finlisation of ongoing negotiations is equally important to channel the funds into the real economy as soon as possible.

Recommendations to boost the impact of the EaSI Capacity Building Instruments

- Facilitate rapid access to EaSI Capacity Building funds to those intermediaries that combine them with the Guarantee and Funded instrument to boost the overall effect
- Allow for small amounts (up to 1M €) for smaller organisations
- Allow for the inclusion of investments incurred in recent months by financial intermediaries to face the crisis to ensure their ability to operate

The current crisis and the lockdown measures have increased the need for financial intermediaries to invest in digital tools, platforms and cloud-based solutions to continue working effectively. EaSI Capacity Building Funds if provided rapidly, can boost their capacity to serve the Social Economy during the current crisis and transform their economic model in the future.

Conclusion

This crisis is an opportunity for the European Commission to take the lead in supporting the Social Economy in Europe, sending a strong message to Social Economy organisations, that they will not be left behind. We believe this will also inspire Member States in taking measures to support their Social Economy sectors, when they need it most.

To do so, the European Commission can boost the capacity of the EaSI Instrument in the coming months, which may prove particularly adapted to suit the needs of the Social Economy in times of crisis. EaSI includes the main ingredients needed by financial intermediaries to support effectively Social Economy organisations. Thanks to EaSI instruments, FEBEA members can provide flexibility in repayment, additional time, and liquidity to many Social Economy organisations around Europe, keeping them alive through the crisis and allowing them to contribute to the reconstruction.

By taking rapid action in the coming months and using the EaSI instruments to their maximum potential, the European Commission will have a great positive impact on the Social Economy. FEBEA and its members are ready to support the efforts of the European Commission towards the Social economy.

We believe that this crisis is a unique opportunity to rebuild our societies and economies. Rather than returning to business as usual, we have the opportunity to rebuild an economy that works for citizens, that regenerates our ecosystems, which improves our societies. In essence, we have the opportunity to rebuild our societies on ethical values and our production systems on sustainability principles.

To do that, we need a strong Social Economy that is part of the solution and the reconstruction efforts to come. But to do so, we need to help Social Economy organisations survive the worse effects of the economic crisis, and for that we urge the European Commission to take action and use all the means at its disposal.

FEBEA members as the financiers of the Social Economy are already mobilizing their capital, expertise, personnel, experience, and networks to support the Social Economy. With the support of the European Commission we simply will be able to do much more in favor of the Social Economy, when it matters most.

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