Questions and Answers: Solvency Support Instrument

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What is the Solvency Support Instrument and why is the Commission proposing it?

We have to kick-start the European economy to overcome the severe socio-economic consequences of the coronavirus pandemic. The new Solvency Support Instrument (SSI), which builds on the existing European Fund for Strategic Investments (EFSI), is an important part of these efforts. As a result of the unprecedented economic shutdown, many European companies are facing serious solvency difficulties, and physical distancing rules will continue to affect them across sectors. These challenges will likely last. The Solvency Support Instrument will help match the recapitalisation needs of otherwise healthy companies across Europe, which are at risk because of the crisis.

The capital shortfalls resulting from the social and economic restrictions affect companies, workers and households directly. If unaddressed, they would lead to a longer period of lower investment and higher unemployment. Moreover, their impact would affect sectors and regions differently, putting the single market at risk, especially as Member States have vastly different capacities to support their businesses with State aid.

The new instrument is a temporary crisis instrument. It will help otherwise healthy companies weather the storm, protect the Single Market and strengthen cohesion across the Union, with a focus on companies in those Member States and sectors most economically impacted by the pandemic, and in Member States where national solvency support is more limited.

Given the strong interconnectedness of the European economy, an economic downturn in one part of the EU would have negative spill-over effects on cross-border supply chains and the whole EU economy. Conversely, for the same reason, support in one part of the EU would also have positive spill-over effects on cross-border supply chains and the whole EU economy.

What is the magnitude of solvency support needs?

Commission estimates based on corporate data suggest that these needs could be in the region of €720 billion for 2020 alone, in the baseline scenario of the Commission's Spring Forecast. These needs would be higher if lockdown measures stay in place for a longer period or in case of a second wave of the pandemic. In a stress scenario of a 15.5% GDP contraction, the direct impact on companies' equity could rise to €1.2 trillion. These are estimates based on the best information available today.

How will it work in practice? Who will manage the Solvency Support Instrument?

The instrument will work via an EU guarantee provided to the European Investment Bank (EIB) Group under the European Fund for Strategic Investments (EFSI). Solvency support will form a separate window under the EFSI to mobilise private capital. The EIB Group will use this guarantee to provide financing directly or invest, fund or guarantee equity funds, special purpose vehicles, investment platforms or national promotional banks. These intermediary funds or vehicles must be established and operate in the EU. The Solvency Support Instrument should predominantly channel solvency support through financial market intermediaries and only to a lesser degree facilitate direct support to companies by the EIB Group.

The governance structure of the EFSI will be maintained and will apply to this new window until the end of the current MFF. As before, Member States will not be involved in the decision-making on the EFSI guarantee.

What kind of investments will the Solvency Support Instrument finance?

The instrument will support otherwise viable companies that are now faced with solvency issues due to the coronavirus crisis. It will help such companies at this critical time and get back to a sustainable and profitable business track. This instrument will also focus on the EU priorities of the green and digital transitions and on supporting cross-border economic activities.

To avoid a situation where companies which already have access to equity financing could unduly benefit from this instrument, the support will be predominantly channelled through financial intermediaries. Independent commercially-run fund managers will select companies with adequate return prospects, driven by a commercial logic when selecting companies in which to invest or provide other forms of financing. The public intervention (through guarantees, funding or investment) will crowd in private investors. The public intervention will be done on commercial terms or terms similar to the Commission's State aid Temporary Framework (such as remuneration and exit strategy), paying due regard to the European nature of the instrument and to the funds' and other vehicles' independent management.

Support will not be available to businesses that were already in difficulty in State aid terms at the end of 2019, before the outbreak.

What will be the geographical distribution across the EU?

The Solvency Support Instrument will be open to all Member States and to all sectors covered by the European Fund for Strategic Investments (EFSI), with a focus on the Member States most economically impacted by the pandemic, and where national solvency support is more limited. To further ensure its additionality – that the equity financing could not have happened to the same extent without EFSI support – the instrument will also take into account the disparity of equity markets across Europe. In line with the EFSI Regulation, no geographical quotas will be established. However, the EFSI Steering Board will define geographical concentration limits to make sure that the distribution of investment corresponds to these principles. As the situation is evolving fast, these limits can be updated over time in light of the changing impact of the coronavirus pandemic across Europe. It will also make sure that support from the instrument is not concentrated in a limited number of Member States.

How long will it be in place for? What is the investment period?

The Solvency Support Instrument has a temporary character and is part of the overall recovery initiative announced by the Commission. It is essential that such an instrument is put in place as soon as possible in 2020 and that it can be deployed at full capacity quickly in the course of 2021.

The investment period runs until end-2024 in terms of approvals and until end-2026 in terms of signature of the operations. However, 60% of the financing and investment operations must have been approved already by end-2022. Moreover, in order to ensure fast operationalisation, the EIB or EIF may propose to grant support to their operations under the Solvency Support Instrument between the adoption by the Commission of this legislative proposal and the signature of the amended guarantee agreement between the Commission and the EIB Group. This was also the case when the EFSI was first proposed in 2015, and the EIB "warehoused" some operations.

For more information

Factsheet: Solvency Support Instrument, helping kick-start the European economy

Proposals: EU long-term budget 2021-2027: Commission Proposal May 2020

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