EEB CASE STUDY 2

FINANCIAL ASSISTANCE TO COMPANIES

The COVID-19 pandemic has impacted the global economy in unprecedented proportions. According to the World Bank[1], global GDP is expected to shrink by 5.2 % in 2020 (using market exchange rate weights) which is the deepest global recession the world has seen in decades. Despite the efforts of governments to avoid the downturn with fiscal and monetary policy support, the pandemic has forced many businesses to close, leading to a disruption of commerce in most industry sectors.

Many markets, especially in the fields of tourism, automotive and hospitality, ceased to exist. While mid-sized tech companies gained an advantage through the necessary digital transformation of entire societies, other companies operating in e.g. the tourism sector, airlines and the automotive sector face an existential threat. Many companies will not survive the impact of the epidemic. The necessity for adaptation is shown further in a change in consumer behaviour. Demand for online entertainment, food delivery, online shopping, online education, and solutions for remote work or collaboration has significantly increased since the beginning of the outbreak.

By now, it remains unquestioned that companies worldwide and independently of the industry, have to go through a severe organisational and digital business transformation to cope with the mid-term effects of the crisis.

Consequently, companies ask national governments as well as multinational donors such as the EU for financial assistance to secure employment and business continuity. To cope with the impact of the crisis, governments developed special credit lines; the European Investment Group has created the €25 billion Pan-European Guarantee Fund1 in direct response to COVID-19. On 9 April 2020, the Eurogroup put forward three immediate safety nets, worth €540 billion, which were finalised in May 2020. They are designed to support: jobs and workers, businesses, and member states.

However, in face of the current crisis, it is difficult to disentangle the impact of the pandemic from other, structural, economic reasons for a decrease in profit such as a market shift due to technological development, a change in consumer preferences or environment-related policies. While some sectors are well connected to policy makers through strong lobbies, smaller companies and start-ups, operating in emerging sectors may have less impactful networks and public relations. In times of crisis, when decisions must be taken at high speed due diligence procedures have to be accelerated which may lead to bad decision outcomes. It might happen that non-eligible companies receive public funds whereas others lack access to necessary support.

The allocation of EU funding is even more complex than national funds as due diligence procedures and alignment among EU member states tends to be more time consuming. The European community faces debates regarding the allocation of funds in the context of EU solidarity and facing international competition. Stronger EU economies raise concerns about helping weaker economies where returns on investment may have lower impact on an EU or even global scale.

Please tackle this dilemma:
On which ethical considerations should the EU base its allocation of C-19 recovery funds to companies and industries across member states?

[1] https://www.eif.org/what_we_do/egf/index.htm

EUROPEAN ETHICS BOWL