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The European Guarantee Fund and COVID-19: Agile But in Need of Greater Accountability

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Key Points

- The European Guarantee Fund formed an important part of the EU's first response to the COVID-19 pandemic.
- Despite delays from some member states and the European Commission over the creation of this instrument, the European Investment Bank (EIB) moved at high speed to support SMEs and mid-caps.
- The European Guarantee Fund was vertically accountable to national governments, but it needed stronger horizontal accountability to the European Parliament and diagonal accountability to NGOs.
- The EIB should commit to an independent ex-post evaluation of the European Guarantee Fund's design, operation and impact.

Introduction

On 9 April 2020, as the number of new COVID-19 cases in Europe approached 400,000, the Eurogroup endorsed the EIB's plan to create a 'pan European shield' to protect European businesses from the economic effects of the pandemic (Eurogroup 2020). One week later, the EIB's Board of Directors held an extraordinary meeting to approve the creation of a €25 billion European Guarantee Fund to run for two years (EIB 2020a).

The European Guarantee Fund provided investment, loans and guarantees to businesses in the form of equity and debt fund products, capped and uncapped guarantees and synthetic securitisation. Most of this support went to public and commercial banks, which in turn provided finance to small-and-medium-sized enterprises (SMEs) and mid-caps.[1]

The EU's subsequent decision to create Next Generation EU, an €800 billion programme of grants and loans for EU member states, has generated significant attention (De la Porte and Jensen 2021), but the European Guarantee Fund demonstrated the EIB's agility as a first responder. And yet, serious questions remain about the accountability of the Fund to the European Parliament and NGOs.

High Speed Decision-Making

With its offer of long-term loans, guarantees and equity to businesses, the EIB embodies the European ideal of patient capital (Coppolaro and Kavvadia 2022). But the Bank showed itself to be highly responsive to shifting socio-economic challenges when the COVID-19 pandemic hit.

[1] The EIB defines SMEs as having up to 249 employees and mid-caps as having between 250 and 3,000 employees.

A little over three weeks after Italy recorded the EU's first coronavirus cases, EIB President Werner Hoyer acknowledged the 'tragic toll' and 'devastating economic impact' of the coronavirus and outlined a plan to mobilise up to €40 billion of financing to ensure that SMEs had access to liquidity and working capital (EIB 2020b). Hoyer also promised to step up support for the health sector.

The EIB Group took a number of steps during the early weeks of the pandemic to make good on Hoyer's promise. On 6 April 2020, the European Investment Fund (EIF) used €1 billion from the European Fund for Strategic Investments to guarantee loans to SMEs from banks and other lenders. This was in addition to the EIF and European Commission's decision to use existing financial instruments to support efforts to find a vaccine.

The Pfizer-BioNTech COVID-19 Vaccine, which was authorised for use by the European Medicines Agency in December 2020 and which played a major role in vaccination programmes worldwide, was one beneficiary of such funding (Knight 2020).

The European Guarantee Fund was ambitious, not only by the EIB Group's standards but that of any public financial institution in response to the COVID-19 crisis (Mertens, Rubio and Thiemann 2020). At least 65 per cent of the Fund was targeted at SMEs (EIB 2022). The remainder was divided between mid-caps (28 per cent) and innovative companies (7 per cent).

EU heads of state or government called for the European Guarantee Fund to be operational by 1 June 2020 (European Council 2020). Although EIB Directors agreed on the instrument's structure and business approach by May of that year, the first guarantee deals were not signed until December.

The delay came not from the EU's 'frugal' Northern member states, but Central and Eastern European countries. In the end, Romania, Czechia, Hungary, Estonia and Latvia decided that they did not need additional financing and so opted not to contribute capital to the Fund.

The European Commission added to such delays by taking until December 2020 to announce that support through the European Guarantee Fund was compatible with EU state-aid rules (European Commission 2020). Despite this wait, the EIB moved swiftly to support businesses once the European Guarantee Fund was up and running. By December 2021, the Fund had approved €23.2 billion in support for more than 400 operations in all 22 participating member states (EIB 2022). Italy (€4.0 billion), Spain (€3.2 billion), Portugal (€2.2 billion) and France (€2.1 billion) were the biggest beneficiaries. The total financing mobilised by the European Guarantee Fund was estimated at €174.4 billion (EIB 2022).

Strengthening Accountability

Public financial institutions require a high degree of accountability not only because they rely on public money, but because of the economic, societal and environmental consequences of how such money is spent. There may be a trade-off between agility and accountability, but the expediency of financial support does not preclude the need for robust oversight.

Pan-European public financial institutions typically have a high degree of vertical accountability to governments, but they face calls for horizontal accountability to other European institutions and diagonal accountability to NGOs (Lührmann, Marquardt and Mechkova 2020).

The EIB has a range of accountability mechanisms in place to involve stakeholders, ensure programme evaluation and engage with the European Parliament (see EIB 2018, Rakić 2021). And yet, the Bank faces long standing calls for greater transparency, easier access to decision-making by NGOs and citizens and more robust parliamentary oversight (Ban and Seabrooke 2016; Vervynckt 2015).

EU member state governments have exercised a high degree of vertical accountability over the European Guarantee

Fund. Both the Eurogroup and European Council endorsed the creation of the Fund. A Contributors' Committee comprised of representatives from each participating member state approved specific financing decisions under the European Guarantee Fund.[2]

Horizontal accountability of the European Guarantee Fund was weak. The European Parliament welcomed the creation of the Fund, but played no formal role in its creation.[3] This contrasted with the European Fund for Strategic Investments (EFSI), which was underpinned by an EU regulation co-decided by the European Parliament and the Council of Ministers. MEPs had limited opportunities to scrutinise the Fund's investment strategy or operational approach.

NGOs played no formal role in the oversight of the European Guarantee Fund, limiting the scope for diagonal accountability. Informal oversight efforts were hindered by a lack of information on the Fund's operations.

One NGO, Counter Balance (2022: 9) has questioned the value-added of the European Guarantee Fund compared to existing instruments, such as the European Fund for Strategic Investments and the logic of EIB support for 'riskier' projects.

These and other concerns warrant consideration in an independent ex-post evaluation of the European Guarantee Fund. The EIB's Operations Evaluation Division has considered, but not publicly committed to, such an evaluation in its Work Programme for 2021-2023 (EIB 2021).

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[2] The EIB and EIF approved overall financing proposals through the EIB group's standard decision-making channels.

[3] European Parliament resolution of 7 July 2021 on the financial activities of the European Investment Bank – annual report 2020 (2020/2124(INI)).

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Further Information

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