



# THE EUROPEAN GUARANTEE FUND

*/ the unknown tool of the EU  
economic recovery package*

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## ABOUT COUNTER BALANCE

*“Our mission is to make European public finance a key driver of a fair and just transformation into socially and environmentally sustainable and equitable societies where the economy works for all (human and non-human alike) rather than for the few. Counter Balance was launched in 2007 as a campaign specifically aimed at challenging the European Investment Bank (EIB) to push for its reform”*

## What is the European Guarantee Fund?

The “**European Guarantee Fund**” (EGF) is the main tool put in place by the European Investment Bank (EIB) Group to support the efforts of the European Union to tackle the economic consequences of the COVID-19 pandemic.

It is part of the toolbox of instruments put in place at the European level as part of a wider recovery package. Still, it has received much less public attention than the recovery funds like the NextGenerationEU put in place by the European Commission or the stimulus driven by the European Central Bank.

The President of the EIB, Werner Hoyer, stated in May 2020 that “*The economic damage done by the Covid-19 pandemic becomes more visible every day: Hundreds of thousands of small and medium-sized European companies are fighting for their survival. The Pan-European Guarantee Fund is a timely and targeted response to their urgent needs, complementing the national efforts by the Member States*”.

[The EIB website](#) presents the EGF as “*the protection shield for European businesses*”. It is a €25 billion fund which seeks to “*help businesses recover from the pandemic, hire employees and grow. By mobilising extra finance from the private sector, we aim to generate up to €200 billion for the economy*”.

Under the EGF, the two main branches of the EIB Group (the EIB and the European Investment Fund - EIF) provide massive credit lines, guarantees and other complex financial instruments to commercial banks and investment funds across Europe.

A year and a half later, this factsheet seeks to explain what the European Guarantee Fund is, and the state of play. It identifies risks and challenges that the Counter Balance coalition, together with investigative researchers and journalists, uncovered as part of the research project “*Recovery Watch*”. [Recovery Watch](#) is a collaborative project involving organisations based in Brussels and in various European countries analysing the phenomenon of transparency, accountability and corporate capture under the EU economic recovery package following the COVID-19 pandemic.

## / Why create the European Guarantee Fund?

As soon as the COVID-19 pandemic hit Europe, governments called public financial institutions to the rescue. Part of the EU economic recovery package was to rely on already existing public banks such as the EIB, which is the “*bank of the EU*” and the largest multilateral lender in the world.



The rationale is to use public finance to de-risk and guarantee private sector operations (in that case, the support of commercial banks to companies across Europe), at a time when Small and Medium Enterprises (SMEs) are facing hardships due to the COVID-19 crisis.

The EGF is supposed to be a counter-cyclical tool and an emergency instrument. According to the EIB, “*the Fund is designed for European Union businesses that are having trouble because of the economic downturn but that would have been strong enough to get a loan in the absence of the COVID-19 crisis*”.

It is worth noting that the countries advocating the most for the rapid creation of the EGF have been countries from Southern Europe, especially Italy<sup>1</sup>. On the contrary, Nordic and so-called “*frugal*” states (who have been resisting a large-scale public stimulus for the European economy during negotiations over the European economic recovery package) have been more skeptical about this initiative from the outset.

## TIMELINE OF THE EUROPEAN GUARANTEE FUND

**23 APRIL 2020**

The European Council (27 EU governments) endorses the creation of the EGF within the EU Covid-19 response package

**26 MAY 2020**

The EIB Board (representatives of its shareholders) approves the EGF creation

**DECEMBER 2020**

The European Commission decides that the EGF is in line with the EU State Aid rules

**OCTOBER 2021**

The EGF becomes operational, a Contributors Committee is set up

<sup>1</sup>This was mentioned by several stakeholders interviewed, including from the Italian Finance Ministry.

## / What are the EIB and EIF?

The EIB, created in 1958, is the bank of the European Union owned by its Member States, and it is enshrined in the EU Treaties. It makes long-term finance available for investments in order to contribute towards EU policy goals.



The EIF is the specialised SME-financing arm of the EIB Group, created in 1994. Its mission is to support Europe's SMEs to access finance by developing venture and growth capital, guarantees and microfinance instruments. The EIF states that it fosters EU objectives in support of innovation, research and development, entrepreneurship, growth and employment.

Both the EIB and the EIF are involved in the deployment of the EGF. Still, a majority of operations are led by the EIF.

### Who makes decisions on financing?

First of all, it is important to note that the European governments which are part of the European Guarantee Fund are the ones feeding the fund. These contributors provide resources from national budgets to create the €25 billion guarantee fund. 22 governments are part of the EGF scheme, while 5 countries decided not to contribute: the Czech Republic, Estonia, Hungary, Latvia and Romania.

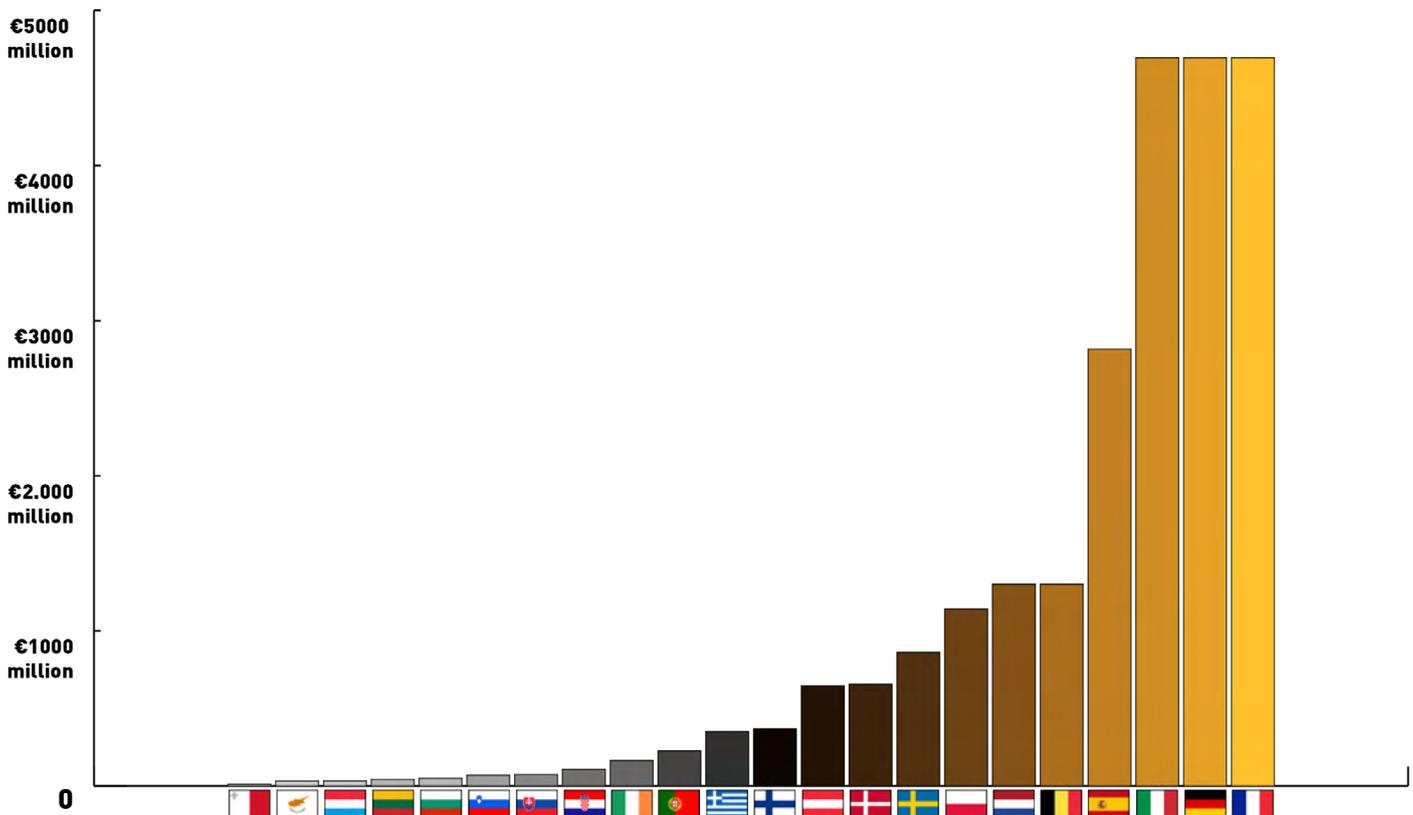
Therefore, these contributors have created a Contributors Committee (CC) to decide upon the use of the guarantee and resources under the EGF. It is made of representatives from all participating governments, and is presided by a Vice-President of the EIB.

The CC approves the use of EGF resources only. Basically, it assesses what operations really necessitate the EGF guarantee, or what would be financed by the EIB simply via its own resources, without specific guarantee.

Then, the regular governance structures of the EIB and EIF remain fully applicable to the EGF operations. That is, the governing bodies of the EIB and EIF will approve the overall financing proposals, in line with their normal procedures.

Overall, the EIB and EIF structures play a central role, as they are the ones receiving proposals for financing in the first place, proceeding to assessments and due diligence on all operations that are then escalated to the EGF Contributors Committee in order to benefit from the EGF guarantee.

# MAXIMUM AMOUNTS COMMITTED BY EACH PARTICIPATING MEMBER STATE UNDER THE EGF GUARANTEE

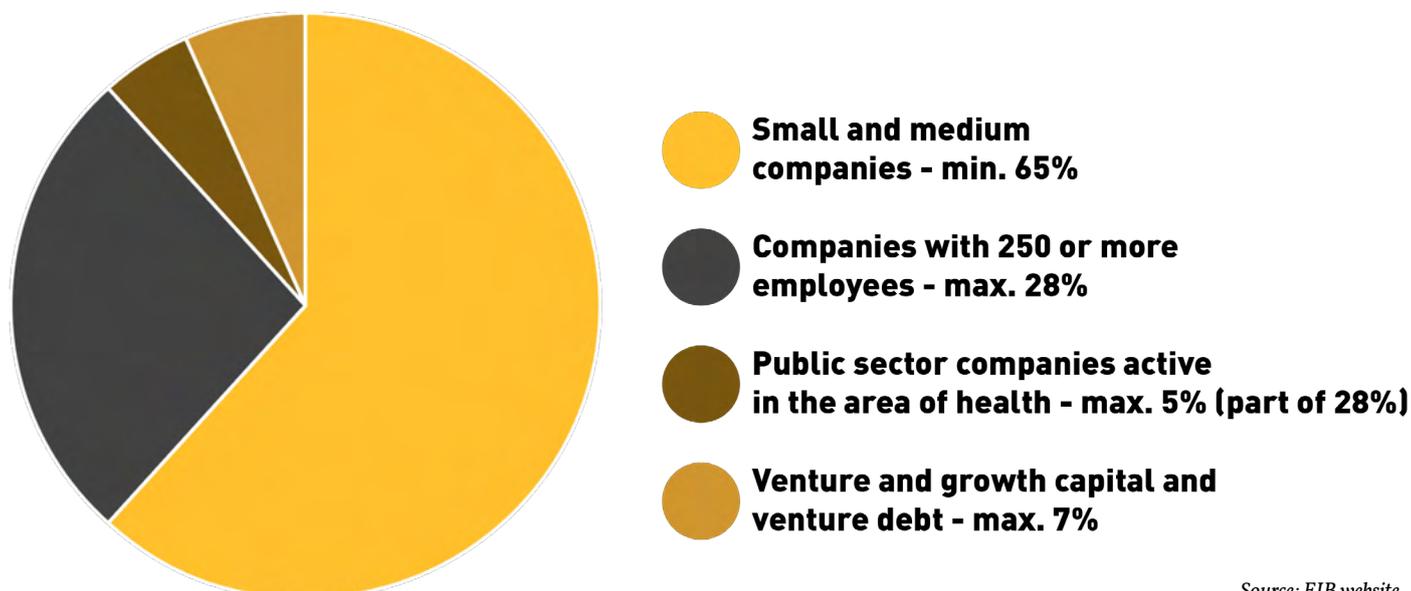


**FRANCE**  
**GERMANY**  
**ITALY**  
**SPAIN**  
**BELGIUM**  
**NETHERLANDS**  
**POLAND**  
**SWEDEN**  
**DENMARK**  
**AUSTRIA**  
**FINLAND**  
**GREECE**  
**PORTUGAL**  
**IRELAND**  
**CROATIA**  
**SLOVAKIA**  
**SLOVENIA**  
**BULGARIA**  
**LITHUANIA**  
**LUXEMBOURG**  
**CYPRUS**  
**MALTA**  
**TOTAL**

**€4.695 MILLION**  
**€4.695 MILLION**  
**€4.695 MILLION**  
**€2.817 MILLION**  
**€1.301 MILLION**  
**€1.301 MILLION**  
**€1.142 MILLION**  
**€863 MILLION**  
**€659 MILLION**  
**€646 MILLION**  
**€371 MILLION**  
**€353 MILLION**  
**€227 MILLION**  
**€165 MILLION**  
**€107 MILLION**  
**€75 MILLION**  
**€70 MILLION**  
**€51 MILLION**  
**€44 MILLION**  
**€33 MILLION**  
**€32 MILLION**  
**€12 MILLION**  
**€24.356 MILLION**

# WHO BENEFITS FROM THE EIF

## A HIDDEN BAILOUT OF THE FINANCIAL SECTOR?



Source: EIB website

It is important to recall that the **clients directly receiving EIB and EIF support are largely financial intermediaries** (banks and funds) **while the final beneficiaries are the SMEs and companies**. The EGF is by nature mostly an intermediated and indirect instrument.

Ultimately, **these are not only SMEs which benefit from the EGF, but also larger corporations which are also targeted**. These companies may receive direct financing, or be supported via banks or investment funds, and get maximum 28% of the EGF financing<sup>2</sup>.

In terms of financial instruments, the EGF allows the EIB and the EIF to quickly make loans, guarantees, asset-backed securities, equity and other financial instruments available to mostly SMEs. There is a wide set of instruments that the EIB Group can use.

<sup>2</sup> According to the Guarantee Agreement signed by the Netherlands and the EIB Group, there are still several conditions listed in the case of operations supporting large corporates with more than 3000 employees as final beneficiaries:

*i) No equity investments*

*ii) No ABS operations [this refers to Asset Based Securities]*

*iii) Support available only for working capital and supply chain finance.*

*iv) Financing only available through Financial Intermediaries with 'skin in the game'*

*v) Exposure to individual large corporates limited to EUR 250m*

*vi) Only loans in alignment with Communication from the European Commission regarding the temporary framework for State Aid measures to support the economy in the Covid19 outbreak.*

*vii) Only for sectors that are in line with EIB long-term mission (innovation, environment, and SMEs support).*

*viii) Further involve the Member States represented in the Contributors Committee on individual transactions, complemented with higher reporting requirements."*



According to the EIB website, *“The EGF provides guarantees to free up capital for national promotional banks, local banks and other financial intermediaries in order to make more financing available for small and medium companies, mid-caps and corporates. The guarantees will cover losses that may occur in the EGF operations of the EIB Group”*.

There are no quotas to determine how much financing will get the various recipient countries. Still, some concentration ceilings have been established, so that the three Member States that will receive the most funding from the EGF cannot receive more than 50% of the total EGF funding, and the 15 Member States that will receive the least funding from the EGF shall not get less than 10% of the total EGF funding.

## **/ Key figures and profile of clients**

The EGF was supposed to be a €25 billion fund, but actually the contributions from its participating governments will only be €24.4 billion. Ultimately, the initial objective of mobilising €200 billion in total is maintained.



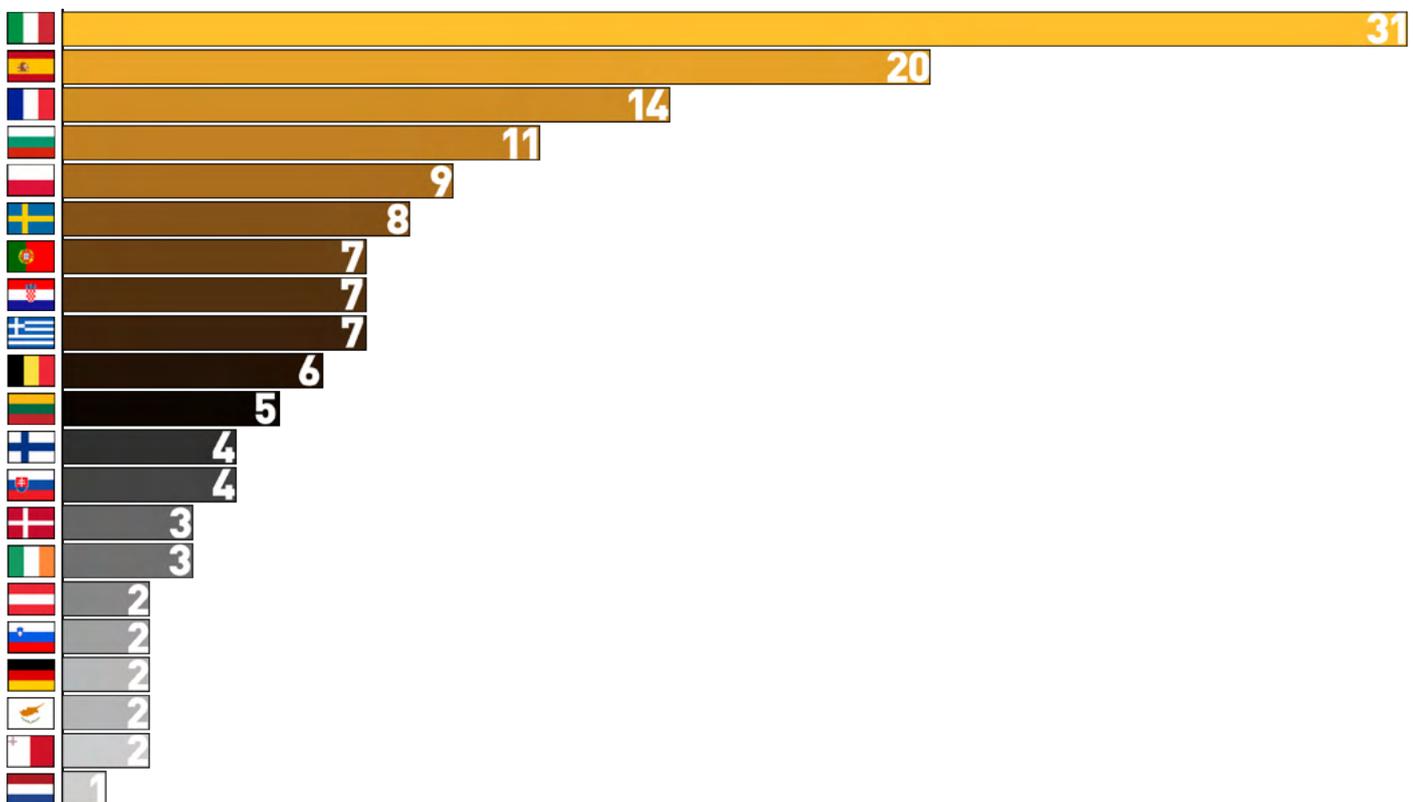
As of 31 October 2021, 288 operations worth €17.9 billion have been approved, and the related expected investment mobilised is €134 billion.

In terms of operations actually signed, the figures are lower. As of 31 June 2021, the EIB and EIF had signed €8.4 billion worth of projects. The EIB Vice-President Ambroise Fayolle, Chairman of the Contributors Committee, stated in June 2021 that *“As a Group, the EIB and EIF are firmly on track in delivering on the promises of this recovery initiative, to mobilise up to €200 billion of financing in one year. Now, halfway through the year, we have already approved 65% of the target size of the guarantee fund, and the money is reaching the real economy”*.

With regards to main recipient countries, Italy, Spain and France are the ones most benefiting from the EGF. According to the EIB, operations have been signed in all 22 participating EU countries.

Out of the 288 operations approved as of 31 October 2021, we have analysed the location of 150 operations (taking into account that half of them are cross-country operations and not specifically located in a given European country) based on the data available on the EIB website. Even if the volumes of financing that clients in each country will receive is not clear at this stage, one can already identify a strong geographical concentration in Southern European states, with some exceptions in the case of Sweden, Poland and Bulgaria where a significant number of banks and funds got access to the EGF guarantee.

## LOCATION OF THE EGF OPERATIONS BY NUMBER OF OPERATIONS IN A GIVEN COUNTRY



*\*data based on the operations that can clearly be linked to a dedicated country, based on information available in the public domain.*

The Italian Ministry of European Affairs indicated to the Italian Parliament in June 2021 that there have been lengthy negotiations about the amounts allocated to the first operations under the EGF. This is supposedly due to Nordic countries trying to exercise strict control over individual EGF operations and resize and scale down their scope.

Looking at the type of clients benefiting from the EGF support, there are 4 main categories emerging:

## >> PUBLIC BANKS

A typical example of such schemes is the [massive support](#) from the EIB to the Italian public bank CDP (Cassa Depositi e Prestiti). The EIB is providing a guarantee of €600 million to CDP for the granting of new loans of up to a maximum of €800 million to support the development of mid-caps and large corporates. The guarantee will cover 75% of the value of each individual loan granted by CDP. At the same time, CDP has committed to providing additional loans to SMEs and mid-caps for an amount equivalent to the value of the EIB guarantee, bringing the transaction up to a total of over €1 bn of new lending to support the growth plans of enterprises.

This was followed by a second [major operation](#) under which the EIF will support the CDP to feed a SME Guarantee Fund managed by the Microcredito Centrale (an institution controlled by the Italian Ministry of Economic development) with new investments of up to €5 billion. This SME Guarantee Fund is a public mechanism aimed at dealing with the pandemic crisis in support of Italian firms.



## >> PRIVATE BANKS

Large commercial banks are prominent recipients of the EGF. An example is the Banco Sabadell in Spain, which benefits from a [€300 million guarantee](#) from the EIB to channel almost €700 million into the Spanish economy over the next six years. According to the EIB, “by assuming up to 75% of the risk for loans that Banco Sabadell grants to mid-caps and large corporates, the EIB will encourage the provision of new financing, indirectly supporting the entire ecosystem of small suppliers of the companies receiving such financing”. Among large commercial banks also feature [Intesa Sanpaolo](#), Crédit Agricole, Nordea, BBVA, Caixa Bank and various branches of ING, Banco Santander, Raiffeisen, BNP Paribas and Unicredit. Still, there are also smaller regional or local banks also benefiting from EGF support, particularly in Italy.

## >> INVESTMENTS AND EQUITY FUNDS

Numerous operations under the EGF are implemented by the EIF in support of investment and equity funds. There is little information in the public domain about these operations, apart from the names of funds benefiting from this public support.

An example is the €50 million support provided by the EIF to [Partech Partners](#), a venture capital firm describing itself as a “*global investment platform for tech and digital companies*” investing in “*a broad range of technologies and businesses for enterprises and consumers, from software, digital brands and services to hardware and deep tech, across all major consumers*”. On the website of the company, there is no indication of the support received under the European Guarantee Fund.



## >> COMPANIES (HEALTH AND BIOTECHNOLOGIES MAINLY) BENEFITING FROM DIRECT EQUITY INVESTMENT

These operations are generally smaller in size than the large guarantees brought to public and private banks, like this €15 million support from the EIB to a Belgian industrial biotech company via a [loan](#) (venture debt instrument). Under this scheme, the biotech innovator Inbiose is planning to further develop novel production processes for the synthesis of milk and sugars aiming primarily at infant nutrition. Another example is a €10 million support from the EIB to a [Bulgarian company](#) to develop nano satellites and satellite services.

What is particularly doubtful is the added-value of the EGF, especially since the EIB and EIF themselves have already heavily supported the financial sector across Europe in the last years, via credit lines awarded to commercial banks in particular in Italy, France and Spain. This was happening through the EIF and EIB themselves, and also under the guarantee support from the European Fund for Strategic Investments (EFSI, the guarantee fund at the cornerstone of the so-called “*Juncker Plan*”).

It is also questionable whether the financing of biotech companies and satellites production should take place via a publicly funded instrument put in place in order to support Small and Medium Enterprises.

At the end of the day, the EGF seems to be mostly another form of support to the financial sector under the pretext of avoiding drying up of credit to SMEs.

# IS PUBLIC FUNDING STEERING A FINANCIAL BUBBLE?



The way the EIB portrays the difference between these traditional operations and the ones under the EGF are:

- 1** Under the EGF, all operations are backed by the Guarantee Fund with the cash of EIB shareholders. And in the current context, it means that if there are defaults of clients of these commercial banks, ultimately the guarantee will be called up to cover the losses. The rationale is that then the EIB can go for *"riskier"* operations than what it usually does.
- 2** By risky, the EIB mentions mostly
  - a)** clients from the commercial banks that have suffered from the crisis may indeed never reimburse, so their risk-profile is higher than years ago.
  - b)** the type of operation done by the EIB can be seen as riskier in terms of financial engineering, for instance when they go for instruments which are actually not credit lines, but rather guaranteeing risky tranches of the bank's loans, or do securitisations of the banks' portfolio.

Several stakeholders we interviewed mentioned that given the high risk profile of the EGF operations, the probability that the Fund will register financial losses is high<sup>3</sup>.

Still, at this stage there is no information available in the public domain about the guarantee having been activated to date. According to the EIB, no guarantee call took place from the inception of EGF until 31 March 2021. Given that the EGF has started operations since a year only, it seems logical that bankruptcies and related guarantee calls would only come at a later stage. Therefore, it is premature to judge upon the actual riskiness of the scheme from that perspective.

<sup>3</sup>This also mentioned in a document from the Permanent commission on the European Union Policies of the House of Representatives in Italy: <http://documenti.camera.it/leg18/resoconti/commissioni/bollettini/pdf/2020/06/04/leg.18.bol0381.data20200604.com14.pdf>

What could actually represent the most risky part of the EGF looks very controversial. While certain instruments under the EGF are quite classical for public banks like the EIB and EIF (loans, equity financing, guarantees, etc), there is also a specific focus under the EGF on investing in risky tranches (mezzanine) of transactions and synthetic securitisations.

Indeed, on 16th August 2021, the European Commission [agreed upon](#) the creation of a new instrument (synthetic securitisation product) under the EGF. This very financialised product is described as *“guarantees on synthetic securitisation tranches under the EGF managed by the EIB Group to support companies affected by the coronavirus outbreak”*.

A budget of €1.4 billion is allocated to this new product, with a goal to mobilise at least €13 billion of new lending to SMEs affected by the COVID-19 outbreak.

The financial technique at the heart of this instrument - synthetic securitisation - has come under severe criticisms following the 2006-2007 financial crisis. It was accused of amplifying risks and masking the structural issues that led to the crisis.

There is currently a strong revival for securitisation. In the US, the biggest market for securitisation, the market size is now more than triple that of 12 years ago. In Europe though, some economists are pushing for such revival to also take place, as formulated in an article on the European Stability Mechanism (ESM) website<sup>4</sup>: *“we explain how securitisation can be a key element in a successful European Capital Markets Union (CMU) and why, as we exit the pandemic, it could provide a springboard to economic prosperity”*. In its efforts to develop a capital markets union (CMU), the European Commission is also identifying the rise of securitisation as a key measure to build European capital markets. Therefore, it seems clear that the push for securitisation under the EGF is an attempt to further this agenda.

### **What is securitisation under the EGF?**

According to the EIB, *“synthetic securitisation is a financial technique whereby an originating entity (e.g. a bank) identifies a pool of existing assets (e.g. a portfolio of loans) which it holds on its balance sheet, creates tranches with different risk/reward profiles against that pool, and subsequently transfers a part of the risk stemming from the pool by buying protection on a specific tranche (for example by getting a guarantee on the relevant risk tranche) from a protection seller. In return, the originating entity pays a premium to the protection seller”*.

Concretely, the EIB and/or EIF will act as a protection seller and provide a guarantee to its clients (banks or funds) covering a specific risk tranche for a portfolio of existing assets (such as loans to SMEs). The rationale is that, thanks to this support, the bank will be able to reflect the financial advantage it got in new loans to SMEs that would not have happened otherwise, instead of financing lower-risk assets which could exclude some SMEs in need.

According to the European Commission, *“the purpose of the new product is to help originate new, riskier lending by financial intermediaries to SMEs. The aim is to free up lending capacity of financial intermediaries and prevent that their resources are shifted towards lower-risk assets instead of loans to SMEs. The risk of such a shift exists given the economic crisis caused by the coronavirus pandemic, which is expected to lead to downgrades in the financial intermediaries’ existing loan books and therefore to increasing demands for those intermediaries’ regulatory capital”*.

<sup>4</sup>This is rather ironical, as the European Stability Mechanism (ESM) was created in June 2010 following the Eurozone debt crisis that took place after the U.S. 2008-09 subprime mortgage collapse.

The risks linked to such instrument are nonetheless real, and one can question the need for public funding to be used for that purpose.

For example, when Italy introduced a national fund to guarantee non-performing loan securitisation - in a setting quite similar to the EGF - the national authorities took into account the risk factor. [The Italian House of Representatives Research Center](#) highlights that *“to avoid an excessive transfer of risk to the State budget, however, it was envisaged that only the so-called senior securitisations, i.e. those considered relatively less risky, as they ultimately bear any losses deriving from recoveries on credits lower than expected. The reimbursement of the riskiest securities is, on the other hand, subject to the full reimbursement of the tranches of securities covered by the government guarantee”*.

It will become clearer in the coming years if the risks linked to securitisation under the EGF will materialise, and what their extent will be. Still, it is noticeable that the use of questionable financial engineering has been rolled-out without a real public debate taking place, and with limited publicity. The use of techniques that have been part of the causes of the previous financial crisis to solve the new one should certainly be further discussed by democratically elected representatives.

## NOT THERE YET ON TRANSPARENCY

A major issue we encountered with our research relates to the lack of transparency of the EGF. The information available on the [webpage](#) on the EIB website are scarce and make it difficult for members of the public to get clarity on what public funds end up supporting.

For example, the only available Contribution agreement between the EIB and an EU Member State was published by the Kingdom of the Netherlands<sup>5</sup>.

### 1 A COMPREHENSIVE LIST OF EGF OPERATIONS IS NOT PUBLICLY AVAILABLE

The list of operations published on the EIB website is not complete because for commercial reasons (*“in order to protect the commercial interests of the promoters”*), many operations are only published once they have been signed.

Despite several requests for information to the EIB and to recipients of the EGF financing, for a large majority of EGF operations we could not access the following type of information:

- Amount of the transaction signed, and any other specific terms of financing support
- Type and sectors of operations/clients targeted under the financing scheme
- Transparency and integrity requirements passed on to the client, and ultimately to final beneficiaries
- Environmental and social conditions inserted in contracts with clients
- The template reporting requirements that the EIB is passing on to its clients

<sup>5</sup>The annexes of the agreement list the criteria of the eligible operations, including *“Debt operations with SMEs as the final beneficiary will account for at least 65% of EGF-supported financing”; “Debt operations with non-SMEs as the final beneficiary will account for a maximum of 28% of EGF-supported financing”; “Venture and growth capital (through the EIF) and venture debt with SMEs and mid-caps as final beneficiaries will account for a maximum of 7% of EGF-supported financing”*. Still, beside these general indications, none of the individual operations are traceable.

## 2 THERE IS CLOSE TO ZERO INFORMATION ACCESSIBLE TO THE PUBLIC ABOUT WHAT THE EGF RECIPIENTS (BANKS AND FUNDS) ARE ACTUALLY FINANCING THANKS TO THE SUPPORT FROM THE EIB/EIF

A major problem on the transparency front is that the list of sub-projects and companies that are financed under the EIB Group's support is not accessible.

In its regular practice, the EIB and EIF themselves do not disclose the list of final beneficiaries that their clients (banks and funds) support. Unsurprisingly, this is also the case for the EGF operations.

Even more problematic is the fact that our researchers in France, Italy and Spain also contacted several public and private banks benefiting from the EGF support but none of them disclosed any specific information about how they are using or planning to use the funds made available to them.

Therefore, it is impossible for the public to know what the concrete impacts of the EGF are.

## 3 THE DECISION-MAKING PROCESS AT THE EGF IS RATHER OBSCURE

The key body in the governance structure of the EGF is the Contributors Committee (CC). Following requests for information, Counter Balance managed to access the names of members of the Contributors Committee and the summary of decisions of the CC meetings. These are however very basic and do not amount to real minutes. This information was disclosed upon request, but is not pro-actively published on the EIB webpage. According to the EIB's website, *"the decisions of the Contributors' Committee approving the use of EGF resources for EIB Group operations, as well as a summary justification of the use of the guarantee for individual operations or categories of products, will be made available on this page"*. When checking the EIB website on 29 November 2021, none of those documents were available.

Regarding the demand for real minutes of the CC meetings, the reply from the EIB was the following: *"We regret to inform you that the EIB is unable to disclose the minutes of the meetings of the Contributors Committee as, in line with the second paragraph of Article 14(3) of the relevant Rules of Procedure, these are considered confidential. Disclosure of these minutes would therefore not be compliant with European laws, would undermine the protection of public interest as regards the financial monetary or economic policy of the EU, the institutions, bodies or Member States, and would seriously undermine the Bank's decision-making process"*.

It was also indicated to Counter Balance in July 2021 that more information will be published on the EGF website on a biannual basis, and the first report will appear *"in the coming weeks"*, as part of a 6-months report on the decisions of the Contributors Committee (covering the period October 2020 - March 2021). As of 29 November 2021, and more than one year after the EGF was created, this report is still not public.

A specific reason why it has been hard to get meaningful information so far: the operations listed on the EGF page (on EIB website) are those that got a pre-approval. But the volumes of the operations and their details are not sorted out before the actual signature of contracts. And to a large extent, the signatures of EGF operations have not taken place yet.

Still, the transparency issues at the level of the EGF largely reflect the fundamental lack of transparency of the EIB and EIF when they make use of financial intermediaries. A recent [report](#) led by Bankwatch sheds light on these major issues, and how the EIB is running behind its peer institutions on the matter. These problems have long been denounced by NGOs (see for instance pages 35 and 62 of a Counter Balance [report](#) from November 2020) and the European Parliament.

## A LACK OF ACCOUNTABILITY AND DEMOCRATIC SCRUTINY



Overall, the lack of transparency around the EGF is exacerbating the poor accountability of this instrument.

Given the secretive nature of EGF and the limited publicity around it, it seems unlikely that the European Parliament or national parliaments would take a close look at what is happening via this instrument, including on how it is managed and implemented. Finance Ministries in the 22 participating countries are the ones and only in charge of controlling it, at the time being at least.

It is still worth noting that in a few countries, like the Netherlands and Italy, national parliaments were consulted and informed about the creation of the EGF. For instance, in the Netherlands the Ministry of Finance published a memo explaining the rationale for its participation in the instrument. But to date this is a mere exception. Given the fact that any losses under the EGF will be borne by the participating Member States, this absence of parliamentary scrutiny is concerning.

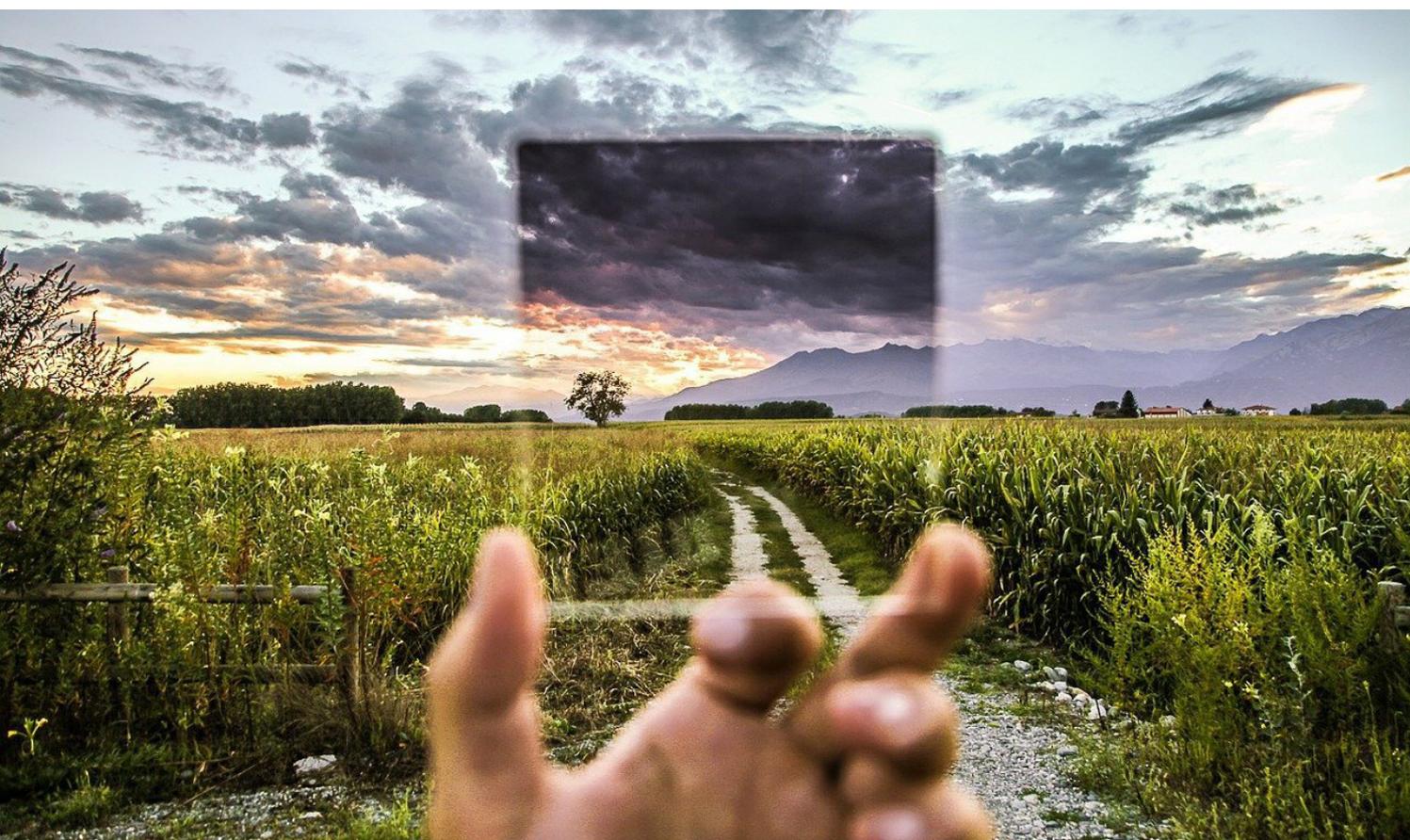
## *The problematic role of the EIF*

Most of the EGF operations are implemented by the EIF, and not the EIB as such - as the EIB is rather focusing on fewer but larger scale operations.

There is an overall lack of public scrutiny around the EIF despite its growing macroeconomic role, via recent capital increases in particular. Civil society has focused mostly on the EIB in the last decade, and the EIF has always remained outside of public scrutiny.

The analysis of Counter Balance is that the EIF has very weak transparency, environmental and social standards and performs light touch due diligence. Under the EGF, there are even some fast-track procedures for approving the guarantee schemes, so this problem is further exacerbated.

It is clear that the business model of the EGF - mainly acting as a "fund of funds" makes it by nature hard to monitor its operations. Still, the complexity of financial instruments used should not mean that this institution using public money should fully operate out of public scrutiny.





After monitoring the setting up and first year of operation of the European Guarantee Fund, we are left with more questions than answers, in particular regarding its true impact on the European economy. Some lessons can already be learned though.

First of all, the whole EGF lacks transparency. From decision-making processes to who the final beneficiaries are, important volumes of public money are being approved upon and disbursed in a secretive manner, and outside of public scrutiny. This transparency issue actually reflects broader trends at the level of the EIB Group, whose intermediated operations remain for the largest part a black box.

The risk is that the EIB Group, for the purpose of supporting Small and Medium Enterprises across Europe to survive the COVID-19 pandemic, ends up providing blank cheques to big banks and investment funds, with little strings attached and in behind closed doors.

This brings to the second set of conclusions that this research raises, which concerns the added-value of the European Guarantee Fund. Partly due to its lack of transparency, there is little information and evidence in the public domain about how this instrument really makes a difference, and if similar results could not have been achieved without the use of public resources.

The future will tell if the EGF is a hidden bailout of the financial sector, or if it brings a breathing space for small enterprises across Europe.

The fund will initially approve operations until the end of 2021, but this period can be extended by the Member States. There are already rumours that a 6 months extension is likely (so until mid-2022). This potential extension would need to be approved by the 22 countries participating in the EGF.

Given the doubts cast over this instrument, it will be of utmost importance that decision-makers address the questions raised about the transparency, accountability and added-value of the EGF.

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