EIB GROUP EVALUATION

Rapid assessment of the EIB Group's operational response to the COVID-19 crisis

December 2021

European Investment Bank Group

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This evaluation was carried out by the EIB's Evaluation Division (IG/EV), under the supervision of Sabine Bernabè, Head of Evaluation. The team, led by Emmanuel Pondard (evaluation expert), included Katerina Balta, Marco Mota, Sonia Vega (evaluators), Eleftheria Zarkadoula (assistant), and Aya Bey (trainee). Pierre Froidure (evaluator) also provided valuable support.
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For further information on the EIB's activities, please consult our website, www.eib.org.
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Abbreviations and Acronyms

ABS	Asset-Backed Securities
AFME	Association for Financial Markets in Europe
AIM	Additionality and Impact Framework
BGK	Bank Gospodarstwa Krajowego
BLS	Bank Lending Survey
COSME LGF	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) Loan Guarantee Facility (LGF)
EaSI	Employment and Social Innovation
EBA	European Banking Association
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EGF	European Guarantee Fund
EIB	European Investment Bank
EIBG	EIB Group
EIF	European Investment Fund
EREM	EIB Group Risk Enhancement Mandate
EUSF	European Union Solidarity Fund
FI	Financial Intermediary
GDP	Gross Domestic Product
IDFF	Infectious Diseases Finance Facility
IMF	International Monetary Fund
InnovFin SMEG	EU Finance for Innovators (InnovFin) SME Guarantee Facility (SMEG)
MBIL	Multi-Beneficiary Intermediated Loan
OECD	Organisation for Economic Cooperation and Development
PEPP	ECB's Pandemic Emergency Purchase Programme
PPG	Public Policy Goal
RRF	Recovery and Resilience Facility
SAFE	ECB's Survey on the Access to Finance of Enterprises
SME	Small and Medium-sized Enterprise
SURE	Support to mitigate Unemployment Risks in an Emergency
ToFA	Transfer of Financial Advantage
WCF	Working Capital Finance

KEY TERMS

Additionality

Under the EIB's additionality and impact (AIM) framework, for an EIB intervention to achieve additionality, it should facilitate and/or strengthen an eligible project from a public welfare perspective in a way that the market alone cannot, at least not to the same extent or in the same timeframe, notably by mitigating a market failure. The AIM framework rests on three pillars:

- Why — the EIB should ensure alignment with EU policies and address less than optimal investment situations that result from market failures.
- What — the EIB should lessen these sub-optimal investment situations and constructively shape investments in terms of scale, scope, structure, quality and/or time.
- How — the EIB should contribute financial and non-financial support to the project that complements support from other organisations and sources.

COVID-19 events

A number of measures introduced by the EIB in response to requests from clients, such as the temporary waiver of financial clauses (or contractual amendments) and the deferment of interest and/or principal payments.

De minimis

De minimis State aid refers to small amounts of State aid to undertakings (essentially companies) that EU countries do not have to notify the European Commission about. The maximum amount is €200 000 for each undertaking over a three-year period.[1]

De-linked risk-sharing

EIB provides a (a) guarantee or (b) funded risk participation/contingent loan to a financial intermediary covering up to 50% of the losses in respect of each defaulted loan in a non-granular reference portfolio of pre-selected, existing loans (typically 10 to 20 loans). The guarantee therefore covers losses on an existing portfolio (and the associated capital relief and risk relief is used to build a new portfolio) unlike the linked product, where the EIB guarantee covers losses on the new portfolio to be generated.

Linked risk-sharing

EIB provides a (a) guarantee or (b) funded risk participation/contingent loan to a financial intermediary covering up to 75% of the losses in respect of each loan in a new non-granular portfolio. The guarantee therefore covers losses on the new portfolio, unlike the de-linked product, where the EIB guarantee covers losses on an existing portfolio.

[1] Source: EUR-Lex - 0802_2 - EN - EUR-Lex (europa.eu)

EXECUTIVE SUMMARY EVALUATION

December 2021

Rapid assessment of the EIB Group's operational response to the COVID-19 crisis

Beyond its toll on human lives and the suffering it has caused, the COVID-19 pandemic induced one of the worst global economic downturns since the Great Depression.

In the emergency phase of the crisis, severe disruptions in demand and supply chains created intense liquidity pressure across a variety of sectors, and previously healthy firms suddenly faced a real risk of running out of cash in a matter of weeks or months. Businesses and the public sector needed liquidity at short notice to maintain stability in the context of operational disruption, and protect themselves from the risk of liquidity pressure transforming into credit events. Many firms have left this phase with debt overhang and at risk of insolvency.

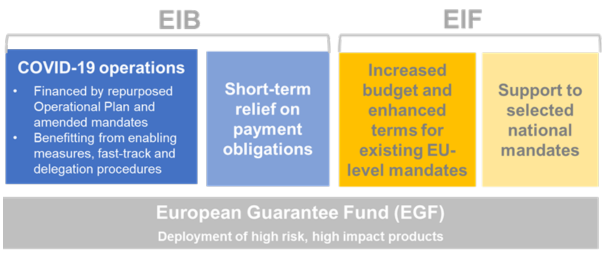
In the recovery phase of the crisis, European firms will require funding that allows them to manage their over-indebtedness and under-capitalisation, so they can continue investing, including in their green and digital transformation.

As it is induced by a pandemic, a defining feature of the COVID-19 crisis is that it comes in several waves over a protracted period until vaccination becomes sufficiently widespread. As a result, the emergency and recovery phases of the crisis are non-linear, and hard to demarcate. In practice, although the initial economic shock affected all sectors, some were more adversely hit than others (such as hospitality, tourism, cultural and creative industries, and air transport) and are likely to show a slower recovery in the medium to long term.

EIB Group crisis response

In the face of the unfolding crisis, the European Investment Bank Group, consisting of the European Investment Bank (EIB) and the European Investment Fund (EIF), put in place a multifaceted response aimed at addressing the diversity of its clients' needs.

Components of the EIB Group's response to the COVID-19 crisis



- The EIB approved an operational emergency response in April 2020, at the height of the first wave of COVID-19 cases in Europe. It repurposed part of its existing mandates and own resources to support both existing and new operations in need of financing to mitigate the impact of the crisis. For these operations — labelled "COVID-19 operations" — the
- EIB selectively offered a set of "enabling measures" aiming to: (i) increase the volume and co-financing share of its financial support in view of growing liquidity needs; (ii) encourage clients to rapidly sign and ultimately disburse the financing made available to them, to help increase and accelerate the flow of liquidity injected into the economy; and (iii) expand the categories of expenditure that it can finance to include working capital finance for intermediated lending and additional health-related expenses. The EIB also introduced a number of measures aimed at alleviating short-term payment obligations for its performing borrowers temporarily impacted by the COVID-19 crisis. Finally, the EIB put in place temporary fast-track and delegation procedures to speed up its project cycle.
- The EIF also adopted a number of actions intended to accelerate the treatment of requests for approval, and the deployment of its COVID-19 response on the ground.
- In the first half of 2020, both the EIF and the EIB agreed additional budgets and enhanced terms for several of their existing mandates with the European Commission. In addition, the EIF supported a number of national initiatives, the largest one being the German Corona Matching Facility.
- Beyond its immediate response, the Group established the Pan-European Guarantee Fund (EGF) with a subset of EU Member States in August 2020. The EGF has a dual objective to ensure that companies obtain short-term liquidity to weather the crisis (liquidity response) and are able to continue their growth and development in the medium to long term (recovery response). The EGF is a high-risk mandate with high leverage expected. It is intended to primarily support small and medium enterprises (SMEs), and mid-caps. Under this initiative, the EIB deploys guarantees in the form of linked risk-sharing[2], venture debt and asset-backed securities (ABS). The EIF deploys equity, debt funds and guarantee products in cooperation with selected financial intermediaries.

About this rapid assessment

Objectives

Rapid assessments are suited for ongoing interventions in the context of unfolding crisis events. By design, they are delivered faster than traditional evaluations. This rapid assessment provides a quick answer to a simple question: during the emergency and recovery phases of the crisis, did the Group's COVID-19 response reach the clients that needed help, at the right time and in the right form? It also gathers evidence and lessons learned on how quickly the Group mobilised expertise and resources to provide an adequate crisis response. Because the rapid assessment is undertaken while the intervention is still being implemented, it assesses the pace of the delivery of financing, but it does not assess the achievement of outcomes or impact (effectiveness and sustainability), as it is too early to measure these effects. The assessment of additionality also builds on estimates made at the appraisal stage, but cannot yet be verified.

Scope

This rapid assessment aims to provide real-time evidence on the Group's response, and therefore needs to narrow its focus compared with standard evaluations. It covers the EIB's interventions specifically set up in response to the economic impact of the COVID-19 crisis in the European Union, and the EIF's mandates of financial significance with a COVID-19 component. All other Group interventions with the aim of addressing the COVID-19 crisis — notably those directly addressing the public health crisis — are acknowledged and described, but not evaluated.

[2] The guarantee covers losses on a new portfolio of loans to be created by the financial intermediary, unlike the de-linked product, for which the EIB guarantee covers losses on a portfolio of existing loans.

Methods

This rapid assessment uses a combination of qualitative and quantitative methods suitable for producing findings quickly: a review of academic papers and literature on previous and current crisis responses, a comprehensive analysis of the Group's portfolio of "COVID-19 operations" supported since the beginning of the crisis (compared to concomitant and past interventions in terms of scope and delivery), interviews with EIB Group services and representatives of business associations, and a survey of EIB and EIF clients having benefited from the set of enabling measures described above (with a response rate of 46%).

Relevance of the EIB Group's emergency response

Lessons learned from previous crises highlight that in order to be relevant, emergency responses should: be agile in analysing the problem and in designing a response that is tailored to the specific needs caused by the crisis, and quick at deploying the response to the real economy (preferably building on a limited number of already tested and fast-disbursing products that can easily be scaled up).

How agile was the Group in setting up its emergency response?

Both the EIB and the EIF were agile in analysing the problem, deciding on tailor-made solutions and mobilising the resources needed to respond. The Group built on regular and diverse analytical input from the EIB's and EIF's respective economics and research services, as well as on feedback from clients so that it could stay alert as the crisis evolved. On that basis, the Group designed adequate tailor-made solutions, within the constraints of its available capital and risk-taking capacity. The Group's immediate response was conditioned by its ability to redirect finite resources available under the existing operational plan and under pre-existing mandates. The reorientation of several mandates with the European Commission was particularly conducive to scaling up the response in favour of SMEs and mid-caps.

This agility has allowed the Group to respond at considerable scale: its COVID-19 response has constituted a significant portion of its overall activity since April 2020. EIB operations benefiting from COVID-19 enabling measures represented 35% of its signatures in 2020 and 38% by mid-2021. The EIF's mandates with a significant COVID-19 component accounted for 24% of total EIF signatures at end 2020 (their budget had been fully allocated by then).

Was the immediate response adequate for addressing the emergency needs of the economy?

Overall, the Group's emergency response was adequate for helping alleviate the liquidity pressure felt by its clients and companies, and therefore enabled them to maintain stability in the context of operational disruption.

Via its guarantees and risk-sharing products, the Group primarily addressed financial intermediaries' need for credit risk protection and capital relief, in a context where firms were increasing their requests for amendments to repayment terms. The financial intermediaries benefiting from the EIB's credit lines strongly valued its long-term funding on favourable terms, in an environment of high uncertainty. Protection against a liquidity shortage was less of a motivation to apply for the EIB's credit lines, particularly because the ECB's massive pandemic emergency purchase programme already covered urgent liquidity needs on very favourable terms. Feedback from the banking sector (survey and interviews) indicates that the Group's support helped preserve lending on favourable conditions to companies, including final beneficiaries with difficulties in accessing finance. Altogether, these interventions were relevant to helping avert a wave of bankruptcies and the associated systemic risks.

The EIB's direct financing of projects provided corporate and public sector clients with liquidity on favourable terms to enable them to continue or complete their ongoing investments. Firms needed to finance their working capital requirements or build precautionary liquidity buffers. The long-term funding at lower costs and with longer loan tenors was particularly appreciated, in an environment of strained liquidity and high uncertainty.

How quick was the deployment of the emergency response, and how timely was its phasing-out?

The exceptional measures taken by the EIB Group were conducive to a quick deployment of funding on the ground.

In the emergency phase of the crisis, the most urgent priority was to address short-term liquidity needs as fast as possible. Several of the EIB's enabling measures were meant to achieve this goal, along with the delegation of their implementation to lower hierarchy levels and temporary fast-track procedures. Altogether, these amendments were conducive to significantly accelerating the time to first disbursement: compared to the average trends in previous years and to other operations over the same period, EIB COVID-19 operations were more than twice as fast in moving from project appraisal to the first disbursement. Speed was gained in particular for converting an approval into a first signature.

In addition, both the Bank and the EIF mobilised existing products, worked principally with existing clients and expanded existing mandates. This approach is in line with best practice: past evaluations indicate that working with "tried-and-tested" partners and deploying a limited number of already tested and fast-disbursing products are conducive to a quick deployment.

But more flexibility would have been needed in the partial prolongation of the EIB's emergency support. In December 2020, the EIB Board of Directors decided to prolong the availability of enabling measures for only one more quarter and to discontinue them after March 2021, except for public health sector operations. However, studies indicated that the economic situation was largely unpredictable at the time, as the evolution of this pandemic-related crisis was largely contingent on vaccination rollout and containment of virus variants. The pipeline received from the EIB's transactional departments indicated that there was continuous and widespread demand for a variety of its COVID-19 enabling measures throughout 2021. The requests received by the Group for financing were closely correlated to the spring and autumn 2020 lockdowns, which suggests that there would still have been demand for emergency support between April and July 2021, when lockdowns were still imposed in several regions and for contact-intensive sectors.

> **Lesson:** Given the unpredictable length of a pandemic-related crisis, the decision to activate or discontinue a crisis response should be: (i) continuously revisited as the crisis unfolds: and (ii) informed by updated analyses of the context and demand.

For the EIF, the phasing-out process was contingent on the full use of available resources under mandates. Under the main mandates mobilised (the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility), approvals were complete by the end of 2020 and the entire budget had been fully allocated, leaving no room for an extension under these mandates.

Relevance of the EGF as a crisis response

Is the EGF's design suitable for addressing the emergency and recovery needs of the EU economy?

The EGF was set up to respond to the economic impact of the COVID-19 pandemic by ensuring that EU companies (and primarily SMEs) have sufficient liquidity available to weather the rapidly unfolding crisis, and are able to continue their development in the medium to long term. As a high-risk and high-impact mandate, the EGF was expected to achieve more for this objective compared to what would have been achieved under the Group's own resources or existing mandates.

The EGF was formally established significantly faster than other EIB Group mandates, building on the extraordinary efforts of the Group to originate, present and obtain the approval in a very short time and in a challenging context. Despite these efforts, the EGF experienced a six-month delay in its operational launch, which was partially due to the time needed to reach consensus amongst contributors on key EGF design aspects, but also to the requirement to go through the EU State aid clearance process (necessitated by the mobilisation of EU members' resources).

Delays in the operational launch of the EGF had two important consequences. First, the EGF products became less attractive for financial intermediaries because they had less time to build the portfolio covered by these products. Second, the delays reduced the EGF's relevance as a countercyclical response to the liquidity crisis: the EGF became operational when urgent liquidity needs had already been largely addressed. Setting up the EGF — a brand new initiative based on the contribution of multiple contributors with ad hoc governance arrangements — required time, which undermined the provision of financing for urgent needs in the very short term.

> **Recommendation: The EIB Group should consider establishing a crisis mechanism that will enable it to quickly address future emergency needs.**
>
> If the Group intends to address the emergency financing needs resulting from future crises, it should be better prepared so that it can act quicker. It should consider setting up a crisis response mechanism that would be ready for future deployment. The mechanism would combine: (i) pre-defined governance arrangements to transfer some of the coordination costs upfront; and (ii) built-in flexibility to address different types of crisis events and adjust the course of implementation as the crisis unfolds. The Group could decide on the most appropriate vehicle for applying these principles, but as a minimum, some of the governance arrangements could be defined upfront (such as mandate structure, type and modalities of contributions, rules of procedure with contributors, reporting and monitoring framework, etc.). To the extent desired, other aspects could also be defined upfront (such as activation/triggering conditions, financial pledges, product mix and risk appetite).

The EGF is fully relevant to achieving its objective of ensuring that EU firms have access to liquidity to be able to continue their growth and development in the medium to long term, primarily by providing risk coverage and capital relief to financial intermediaries.

The COVID-19 crisis has left many firms with debt overhang and at risk of insolvency. Over-indebtedness and under-capitalisation are likely to deter private investment going forward. Needs have evolved towards more subordinated debt solutions, such as hybrid instruments. The EGF's quasi-equity products are adequately designed to help firms with high growth potential invest, while remaining solvent. But the EGF has insufficient built-in flexibility to scale up its efforts on that front, for two main reasons. First, its contributors decided to limit equity or equity-like transactions for small and medium enterprises and mid-caps at 7% of EGF-supported financing. Second, the target set for the expected resources mobilised in transactions incentivises the use of other products with a higher multiplier effect on investments.

> **Recommendation: In the recovery phase of the crisis, the EIB Group should assess the feasibility of scaling up its provision of support to SMEs and small mid-caps with subordinated features, with a view to enabling them to continue investing (especially in their green and digital transformation) while preserving their solvency.**
>
> The COVID-19 crisis has left many firms with debt overhang and at risk of insolvency. The Group's quasi-equity product offering constitutes a relevant response to the financing needs of smaller firms with high growth potential. Innovative responses are also needed to support the recapitalisation of firms with lower growth potential and whose capital was destroyed during the crisis. The Group could explore the use of existing or new mandates to scale up its support, and the feasibility of enhancing the subordinated features of its existing debt products (such as longer maturities or grace periods).

Does the EGF complement the Group's immediate response and other EU schemes?

As an impact finance mandate, the EGF complements the EIB Group's immediate response in terms of risk segments and associated products, type of projects supported, volumes and leverage. The EIB and EIF responses were complementary in terms of their differentiated products, intermediary type, targeted firms and transaction size.

The EIB Group's immediate response complemented EU measures launched in the emergency phase — SURE, ReactEU and the ESM Pandemic Crisis Support — by virtue of offering differentiated support to similar target groups.

The EIB Group's response was found to have the greatest impact where national measures were limited in size or did not cover all areas. Complementarity with national schemes was built into the EGF's design, but has up to now been penalised by overlap with national schemes, many of which have been extended. However, most of these schemes are now being phased out, which suggests that complementarity with the EGF is set to increase.

Early results of the crisis response

Is the delivery of financing to the economy on track?

The disbursement of the EIB's crisis response to the real economy is progressing at a faster pace than for non-COVID-19 EIB operations in the same period.[3] Disbursement rates were particularly high in the early stages of the crisis (May to July 2020), when firms' demand for liquidity was high. However, the pace of disbursements slowed down between August 2020 and April 2021, before increasing again from May 2021. This trend was common to the entire EIB portfolio and was not specific to its COVID-19 operations.

The pace of signatures and disbursements is constrained by three main factors. First, interviews with EIB services and client representatives indicate that the prevailing market conditions, especially low interest rates, are eroding the EIB's price competitiveness and may ultimately deter clients from drawing on available funds. Second, this phenomenon is exacerbated by the abundance of available liquidity under ECB, EU or national support programmes. Finally, anecdotal evidence suggests that in some cases, clients have followed a precautionary approach, preferring to sign operations with the EIB as a contingency buffer or for their signalling effect, while ultimately not drawing down the financing made available to them.

Has the Group served priority sectors and counterparties?

The management of the EIB announced to its board that its new COVID-19 operations, while still being driven by demand, would be directed "as a priority" to the sectors most affected by the crisis, namely the public healthcare sector, small and medium enterprises, and vulnerable sectors[4]. COVID-19 support was indeed directed to these priority sectors, either by means of financing, or by waivers and deferrals.

- In the health sector, the EIB experienced a steep increase in signed volumes: €3.9 billion in 2020 and €1.9 billion in the first half of 2021, compared to €1.4 billion in 2019. EIB support covered the ability to increase emergency capacity, vaccination campaigns, and funding for health and life science projects with public sector promoters. A number of facilities and products under InnovFin were instrumental in financing health solutions directly addressing the COVID-19 health crisis (including support for vaccine development and manufacturing), such as the Infectious Diseases Finance Facility and the InnovFin Corporate Research Equity, which provided support to BioNTech.
- Intermediated financing to firms — including small and medium enterprises — accounts for two-thirds of the EIB's COVID-19 signatures. The pandemic had prompted the EIB to revise

[3] At end-June 2021, the EIB's approved COVID-19 financing stood at €46.7 billion (including under the EGF), with €37.2 billion signed (80% of approvals) and €22.6 billion disbursed (48% of signatures). As regards the EIF, approved and signed amounts including the EGF stood respectively at €23.8 billion and €10.7 billion (45% of approvals).

[4] Vulnerable sectors were identified jointly by the EIB's Economics (ECON) Department, Transactions Management and Restructuring (TMR) Directorate and the Group Risk and Compliance (GR&C) Directorate as being impacted by the economic effects of the COVID-19 crisis, notwithstanding the credit quality of a borrower.

up its overall signature target for 2020 under its public policy goal for SMEs and mid-caps, from an initial €15.8 billion to €20.0 billion. The volumes signed under this policy goal reached €19.0 billion at year-end 2020.

- The sectors identified by the Bank as vulnerable were principally offered measures aiming to alleviate short-term payment obligations. The main industries concerned were airports, oil and gas, leisure facilities, restaurants and retail.

The geographical distribution of signed COVID-19 operations was fair and balanced overall, as it was directed towards the most affected countries, albeit with exceptions. Italy and Spain alone accounted for 50% of the EIB's COVID-19 signatures in the first half of 2021 and they were among the countries most affected by the crisis (in terms of the decline in gross domestic product, or GDP). In contrast, the crisis hit Malta, Slovenia and Cyprus severely, but these countries received a smaller portion of the COVID-19 envelope compared to their traditional share from the EIB, or no portion at all. Other EU members with traditionally large shares of EIB financing (Germany, Poland and France) received a relatively lower share of COVID-19 financing, which is probably explained by the availability of large national response schemes.

Did the enabling measures make a difference in providing significant, rapid and suitable support to counterparties?

The enabling measures offered for the direct financing of projects aimed to help promoters cope with short-term liquidity pressure or unexpected costs linked to the crisis, so that projects' viability would not be put at risk. The most frequent consequence of the crisis cited by promoters was pressure on their timelines for project completion, followed by additional costs incurred, with only about a quarter mentioning pressure on their ability to finance their share of a project. In response, the EIB allowed the promoters who felt pressure on timelines an extension of their project completion deadline. Manufacturing and transport were the sectors that most frequently benefited from the EIB's top-up financing, which helped clients complete their investments, contend with sudden declines in demand and reduced revenues, or address supply chain uncertainty.

The enabling measures offered for intermediated operations aimed to incentivise financial intermediaries to provide a form of financing that meets the needs of firms hit (or at risk of being hit) by the crisis, with the ultimate goals of preserving their business continuity and credit history, as well as the stability of the banking sector. Under the COSME Loan Guarantee Facility and the InnovFin SME Guarantee Facility, the supplementary risk-taking efforts made by the mandator (European Commission) proved to be very conducive to helping intermediaries originate the eligible portfolio on the necessary scale and at the required speed, and respond to the urgent liquidity needs of their clients. The intermediaries surveyed declared in particular that they granted more postponements of debt obligations, rescheduling of payment dates or credit holidays, as these were better covered by the guarantees provided by the European Commission. The enhanced terms also helped intermediaries improve the conditions offered to their clients for such amendments (collateral requirements, risk-related margins and fees). The EIB mainly deployed measures aimed at relaxing some constraints applied to building intermediated lending portfolios or at reducing the administrative burden for intermediaries. The former had a more positive effect than the latter on helping intermediaries to accelerate or fully originate their sub-loan portfolios, including for working capital finance.

> **Lesson:** The provision of guarantees to intermediaries to cover the risk associated with amendments to the repayment terms of their clients (including the postponement of debt obligations, rescheduling of payment dates or credit holidays) is particularly conducive to helping address firms' urgent liquidity needs resulting from a crisis.

Will the EGF be able to demonstrate its results?

The EGF has a set of key performance indicators which focus on *what* the EGF is expected to deliver (€200 billion of total mobilised investments mainly for small and medium enterprises), and *how* (a cap on the use of certain product types, for instance). The current EGF monitoring and reporting framework reflects this focus on tracking implementation progress and risks, in line with the priorities of its Contributors' Committee. The EGF will also build on the EIB's additionality and impact (AIM) framework to demonstrate how its individual operations address market failures.

The Group's decision to focus reporting on the key performance indicators requested by its contributors combined with its existing AIM frameworks can be considered an efficient way to ensure accountability. However, in the longer term, it will be important to assess the impact achieved by the EGF. IG/EV will undertake an evaluation of the EGF two years after the end of its investment period. In this context, IG/EV will explore the possibility of assessing the impact of the EGF beyond the additionality of its individual operations.

RECOMMENDATIONS AND MANAGEMENT RESPONSE

The Management Committee and the EIF chief executive appreciate the valuable analysis, lessons learned and conclusions of the rapid assessment of the EIB Group's operational response to the COVID-19 crisis, to be taken into account in future strategic orientations for the EIB Group. The timely EIB Group action benefited from knowledge and experience built up over the last economic crisis, input from EIB and EIF services, and feedback from clients.

Under its emergency response, the EIB Group has temporarily accepted significant deviations from its normal procedures, including the financing of non-project related investments (working capital finance) and an increase of its co-financing share. As pointed out in the report, these deviations were very helpful in alleviating the effects of the exceptional economic shock. The EIB Group has also been able to design suitable tailor-made solutions, within the constraints of its available capital and risk-taking capacity. These tailor-made solutions, such as the EGF, have contributed significantly to the ongoing economic recovery.

The Management Committee and the EIF chief executive welcome the recognition that the EIB and the EIF were particularly agile in mobilising several existing mandates to rapidly scale up their response in favour of small and medium-sized enterprises.

The Management Committee and the EIF chief executive also welcome the conclusion that the products deployed as part of the Group's emergency response were relevant for helping businesses access sufficient liquidity, and therefore maintain stability in the context of commercial and operational disruption.

Table 1: Lessons, Recommendations and Management Response
Lesson 1
The provision of guarantees to intermediaries to cover the risk associated with amendments to repayment terms (including the postponement of debt obligations, rescheduling of payment dates or credit holidays) is particularly conducive to helping address the urgent liquidity needs faced by firms as a result of a crisis. Rationale: under COSME LGF and InnovFin SMEG, the mandator agreed to improve the conditions offered to financial intermediaries in response to COVID-19 by extending the guarantee coverage not only to working capital finance, but also to amendments to repayment terms, including the postponement of debt obligations, rescheduling of payment dates or credit holidays. The financial intermediaries surveyed by this study indicated that this extended coverage incentivised them to grant more of these amendments with improved conditions (collateral requirements, risk-related margins and fees). Such amendments are relevant to lowering firms' liquidity constraints in a context of demand and supply chain disruption. **Management Response: Acknowledged** The Management Committee and the EIF chief executive acknowledge this important lesson of the COVID-19 crisis. Given the role banks and other financial intermediaries play in lending to SMEs in the EU capital markets, it was very important that the timely response from the EIB Group has contributed to reducing SMEs' liquidity constraints, especially given the second order impacts of successive lockdowns. The provision of guarantees to financial intermediaries to cover the risk associated with amendments to repayment terms has had a very positive impact and helped to address the most urgent liquidity needs faced by SMEs as a result of the crisis.
Lesson 2
Given the unpredictable length of a pandemic-related crisis, the decision to activate or discontinue a crisis response should be: (i) continuously revisited as the crisis unfolds; and (ii) informed by updated analyses of the context and demand. Rationale: the transition from emergency to recovery in pandemic-related crises is contingent on the end of lockdown measures and vaccination rollouts. Studies and market analyses indicated

that the economic situation was largely unpredictable at the time the EIB decided to partially prolong the enabling measures. In addition, the requests for emergency support received by the EIB Group for COVID-19 financing were closely correlated to the spring and autumn 2020 lockdowns, which suggests that there could still have been demand for emergency support in April to July 2021, when lockdowns were still imposed in several regions and for several contact-intensive sectors. The pipeline received from EIB's transactional departments also indicated a continuous and widespread expected usage of enabling measures in the course of 2021. However, in December 2020, the EIB Board of Directors decided to prolong the availability of enabling measures for only one more quarter and to discontinue them after March 2021, except for public health sector operations. In an inherently uncertain crisis context, the phasing-out of the crisis response should build on continuously updated analyses of the economic and financial context and of market needs.

Management Response: Acknowledged

The Management Committee and the EIF chief executive take note of lesson number 2 and would like to highlight that the COVID-19 crisis is a non-linear event that has resulted in successive lockdowns with unpredictable economic repercussions and second order effects in the economy. It is important to note the significant differences across EU Member States with regard to lockdown lengths, severity and impact on the economy.

R1 Recommendation 1

The EIB Group should consider establishing a crisis mechanism that will enable it to quickly address future emergency needs.

Rationale: setting up the EGF — a brand new initiative based on the contribution of multiple contributors with ad hoc governance arrangements — required time, which undermined the provision of financing for urgent needs in the very short term. Although the EGF was formally approved and set up significantly faster than past EIB Group mandates, it experienced severe delays in its operational launch, reducing its relevance as a countercyclical response to an urgent liquidity crisis. If the Group intends to address the emergency financing needs resulting from future crises, it should be better prepared, so that it can act quicker. The Group should learn from the EGF experience and consider a crisis response mechanism that would be ready for future deployment. The mechanism would combine: (i) pre-defined governance arrangements to transfer some of the coordination costs upfront; and (ii) built-in flexibility to address different types of crisis events and adjust the course of implementation as the crisis unfolds. The Group could decide on the most appropriate vehicle for applying these principles. As a minimum, some of the governance arrangements could be defined upfront (such as mandate structure, type and modalities of contributions, rules of procedure with contributors, reporting and monitoring framework, etc.). To the extent possible and desired, other aspects could also be defined upfront (such as activation/triggering conditions, financial pledges, product mix and risk appetite).

Management Response: Agreed

The EIB Group is from time to time invited to contribute to addressing emergencies caused by conflicts or natural disasters such as floods, wildfires and earthquakes. To be able to better address this kind of human or natural disaster both inside and outside the European Union, the EIB Group would benefit from being able to respond even faster than is currently the case.

Therefore, the Management Committee and the EIF chief executive recognise the merit in exploring with its shareholders the idea of pre-defined governance and management arrangements for those emergency situations. Pre-agreed arrangements and processes could facilitate the prompt deployment of EIB Group finance in response to unforeseeable future crises.

The EIB Group will thus consider an internal coordination mechanism that can activate a faster approval process when needed. These considerations will include pre-defined processes and enough flexibility to provide the necessary adjustment as a crisis unfolds.

R2	Recommendation 2

In the recovery phase of the crisis, the EIB Group should assess the feasibility of scaling up its provision of support to SMEs and small mid-caps with subordinated features, with a view to enabling them to continue investing (especially in their green and digital transformation) while preserving their solvency.

Rationale: The COVID-19 crisis has left many firms with debt overhang and at risk of insolvency. Over-indebtedness and under-capitalisation are likely to deter private investment going forward. Smaller firms need in particular to access subordinated debt and other products for which the lenders' risks are similar to those for equity, while preserving control over ownership. The Group's quasi-equity product offering constitutes a relevant response to the financing needs of smaller firms with high growth potential. Innovative responses are also needed to support the recapitalisation of firms with lower growth potential and whose capital was destroyed during the crisis. However, the deployment of these products is subject to the Group's risk appetite and available capital. Therefore, the Group could explore, among others, the use of existing or new mandates to scale up its support (including with individual Member States under the Recovery and Resilience Facility and possibly under a revamped EGF with a higher solvency support component). In addition, the Group could explore the feasibility of enhancing the subordinated features of its existing debt products (such as longer maturities or grace periods).

Management Response: Agreed

The Management Committee and the EIF chief executive understand the importance of supporting SMEs and small mid-caps with subordinated debt instruments during the recovery phase of the crisis. Nevertheless, the current scale and scope of the financial needs of SMEs and mid-caps that have been left with significant debt overhang and at risk of insolvency is too large for the EIB to support on its balance sheet in the absence of further credit support from Member States or the EU budget.

Mindful of the need for sufficient risk-absorbing capital, the EIB Group is open to exploring with its shareholders inter alia the use of existing or new mandates, to scale up its support in this area. One possibility could be to work with individual Member States under the Recovery and Resilience Facility.

1. ABOUT THIS RAPID ASSESSMENT

1.1 Objectives and questions asked

1. **This evaluation has two objectives: accountability and learning.**

   - First, this rapid assessment provides a quick answer to a simple question: during the emergency and recovery phases of the crisis, did the COVID-19 response of the EIB Group reach the clients that needed help, and did the help reach them when they needed it?
   - Second, this evaluation presents lessons learned on how quickly and effectively the Group mobilised expertise and resources to address market needs during the emergency and recovery phases of the crisis. What lessons can the Group learn, as the effects of the pandemic continue to unfold, and as future crises are likely to occur?
   - In addition, IG/EV will undertake an ex-post evaluation of the EGF two years after the end of its implementation period, focusing mainly on its results. The current evaluation analyses the extent to which the product palette deployed by the EGF is relevant for addressing the emergency and recovery needs of the EU economy, and whether the existing monitoring and reporting frameworks are adequate to fully capture the EGF's results, so the ex-post evaluation can build on robust data.

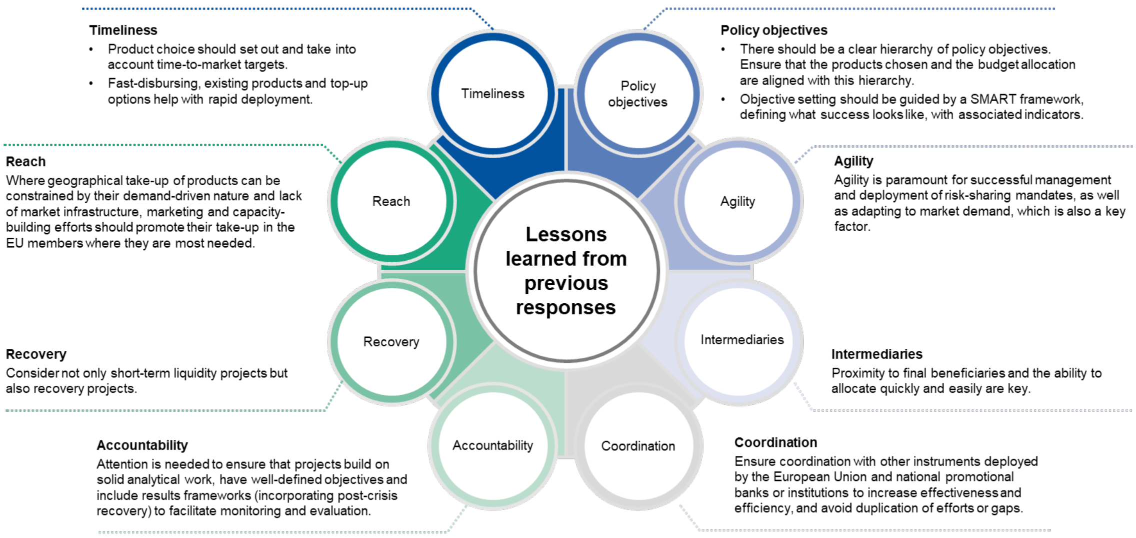
2. **IG/EV has decided to undertake a rapid assessment which is suited to ongoing interventions in the context of unfolding crisis events.** This decision builds on the premise that "*rough approximations delivered at the right time are better than precise results delivered too late for decision.*"[5] By design, this rapid assessment is delivered faster than traditional IG/EV evaluations, thanks to:

   - a focused scope, with a limited set of questions;
   - the adaptation of deliverables: fewer, shorter products that highlight the key findings;
   - the adaptation of the evaluation process: use of methods that can provide data quickly (data analysis, surveys, interviews) and shortened consultation with services.

3. **A utilisation-focused approach is followed to ensure that the analysis, findings and recommendations are useful and used: questions are formulated so that they can be answered in a timely manner and at a reasonable cost, and the answers can be acted on for decision-making and learning.** This evaluation builds on lessons drawn from past studies and evaluations of crisis responses in emergency situations. These studies and evaluations find that to be successful, a response to a crisis induced by a pandemic must consider the dimensions developed in Figure 1 below. These dimensions are used as reference points throughout this report.

[5] Source: Bellavita, C., Wholey, J., & Abramson, M. (1986). Performance-oriented evaluation: Prospects for the future. In J. Wholey, M. Abramson, & C. Bellavita (Eds.), Performance and credibility: Developing excellence in public and non-profit organizations. Lexington, MA: Lexington Books.

Figure 1: Lessons learned from evaluations of previous crisis response initiatives[6]



Source: IG/EV

4. **This exercise assesses the relevance to needs and early signs of effectiveness, and identifies issues that can be improved in the short run as well as early lessons for future interventions.** Because the rapid assessment is undertaken while the intervention is still being implemented, it assesses the pace of delivery of financing, but it does not assess in depth the achievement of outcomes or impact (effectiveness and sustainability), as it is too early to measure these effects. The assessment of additionality also builds on estimates made at the appraisal stage, but which cannot yet be verified. With these considerations in mind, this rapid assessment aims to answer the following three evaluation questions:

Evaluation question	Dimensions covered
Relevance of the EIB Group's emergency response Q1. Was the EIB Group's immediate response relevant to the emergency phase of the crisis?	**Agility:** How agile was the Group in setting up its immediate response (analysing the problem, deciding on solutions and mobilising resources)? **Adequacy:** Was the immediate response adequate for addressing the emergency needs of the economy? **Timeliness:** How quick was the deployment of the emergency response, and how timely was its phasing-out?
Relevance of EGF response Q2. Is the EGF an adequate solution in the emergency and recovery phases of the crisis?	**Adequacy:** Is the EGF's design suitable for addressing the emergency and recovery needs? **Timeliness:** Has the EGF been developed and deployed in a manner conducive to providing a timely response to the crisis? **Complementarity:** Does the EGF complement the Group's immediate response, and other EU schemes?
Early results of the crisis response	**Delivery on the ground:**

6 Based on lessons from past IG/EV evaluations, including: a) Ex-Post Evaluation of EIB Intermediated Lending to SMEs in the EU 2005-2011; b) Evaluation of the European Fund for Strategic Investments (EFSI), c) Evaluation of the EIB's Mandate Activity, and d) Evaluation of the EIB Group Risk Enhancement Mandate (EREM).

Evaluation question	Dimensions covered
Q3. What are the early signs of effectiveness of the EIB Group's crisis response?	Has the emergency response reached the counterparties that needed support? **Operational enabling measures:** Have the measures made a difference in providing significant, rapid and suitable support to counterparties? **EGF results framework:** Will the EGF be able to demonstrate its results?

1.2 Scope and methods

Thematic scope

5. **The EIB Group has deployed a broad and multifaceted response to the crisis.** Both the EIB and the EIF have mobilised existing and new initiatives, covering different products, geographies, counterparties and sectors. This rapid assessment provides real-time evidence on the Group's response, and therefore needs to have a tight focus. The scope of this assessment was defined with two aims: (i) provide a comprehensive description of the Group's multifaceted response to the crisis, and (ii) carry out a granular evaluation of the relevance and performance of selected initiatives.

- **The central scope** comprises interventions specifically set up in response to the COVID-19 crisis and — for the EIF — existing mandates of financial significance with a COVID-19 component. Interventions falling within this central scope are described and evaluated in terms of their relevance and early signs of effectiveness.
    - EIB central scope: existing and new operations benefiting from the set of "operational enabling measures" approved by the EIB Board on 23 April 2020, as well as operations under the Pan-European Guarantee Fund (EGF).
    - EIF central scope: transactions under the two largest existing mandates (the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility) and two new initiatives (the EGF and the Corona Matching Facility). These mandates combine guarantee and equity instruments. The other new initiative — InnovFin Equity (including the Recovery Equity Facility for Innovative Technology Companies) — has not been included because at the time of structuring the evaluation approach, it had a relatively small size and no transaction had been signed yet.

- **The peripheral scope** comprises all other Group interventions with the aim of addressing the effects of the COVID-19 crisis. These other interventions are described in terms of their objectives and level of signatures thus far. However, due to time and resource constraints, their relevance and effectiveness are not evaluated.
    - EIB peripheral scope: operations and corresponding counterparties benefiting from temporary waivers of financial clauses and payment deferrals to cover emergency funding for operating expenses resulting from the COVID-19 crisis (referred to as "COVID-19 events" in this report). IG/EV considered it was not feasible to evaluate the effect of COVID-19 events on the liquidity situation of clients. One reason is that it is too early to obtain data on how clients' liquidity and solvency evolved following these measures (most of which were granted in the second part of 2020). Another difficulty is that these measures were often combined with national interventions, which makes it harder to identify the specific effects of the EIB's measures on the liquidity metrics of its counterparties.
    - EIF peripheral scope: mandates entrusted to the EIF by the European Commission such as the Cultural and Creative Sector guarantee facility and the European Commission's Programme for Employment and Social Innovation guarantee instrument; and mandates entrusted to the EIF by EU members such as the Bulgarian Documentary Finance Facility, the SME Initiative Italy and AGRI Italy, the Region Grand Est Fund of Funds, the Spanish COVID-19 Uncapped Counter Guarantee (guarantees), and InnovFin Equity.

Temporal and geographical scope

6. **The analysis focuses on evaluating the relevance and early signs of the results of EIB Group COVID-19 operations** that were approved or amended between the start of the COVID-19 crisis in March 2020 and the end of June 2021.[7]

7. **The assessment focuses exclusively on EIB Group activities within the European Union.** To keep the analysis manageable, activities beyond the European Union have been included in the portfolio overview (to give a complete picture of the COVID-19 financing envelope), but no judgement has been passed on their relevance or effectiveness.

Methods

8. **The rapid assessment uses a combination of qualitative and quantitative methods** to address the evaluation questions listed above.

	Qualitative methods	
	EIB document and literature review	Review of key EIB Group strategic, policy/mandate (such as on the EGF) and operational documents Review of relevant economic and policy literature
	Zoom on selected operations	For selected EIB COVID-19 operations, analysis of internal documents, and extraction of key data
	Interviews	Interviews with EIB Group services and representatives of client associations
	Quantitative methods	
	COVID-19 portfolio analysis	A comprehensive analysis of the so-called COVID-19 portfolio (see central and peripheral scope described above)
	Comparative analysis with non-COVID-19 portfolio	A comparative analysis of key dimensions of the portfolio of COVID-19 operations with non-COVID-19 operations signed in the same period, and the pre-COVID-19 portfolio signed between 2015 and 2019
	Surveys of EIB and EIF clients	A survey of EIB Group clients having benefited from COVID-19 enabling measures

[7] The data at end June 2021 were the latest available at the time of writing this report. End June 2021 is the cut-off date for the portfolio analysis presented, with the exception of the analysis of the EGF's key performance indicators, for which the cut-off date is end August 2021.

2. EIB GROUP RESPONSE TO THE COVID-19 CRISIS

2.1 The economic impact of the COVID-19 crisis in Europe

9. **Beyond its toll on human lives (more than four million deaths by mid-2021) and the suffering it has caused, the COVID-19 pandemic also induced one of the worst global economic downturns since the Great Depression.** The output of the global economy contracted by 3.2% in 2020 compared to 2019, with advanced economies hit relatively more (a 4.6% drop) than emerging markets and developing economies (a deterioration of 2.1%).[8] Among advanced economies, the European Union experienced a very sharp decline of 6.0% in output in 2020.[9] The COVID-19 crisis started as a health crisis and rapidly transformed into a widespread economic crisis, affecting every aspect of business, from the robustness of supply chains to the stability of financial markets, the availability of the labour force and rapidly waning customer demand. Due to the pervasive nature of the crisis, vulnerable businesses (including companies that already faced difficulties in accessing finance such as small and medium enterprises) were disproportionally hit, and existing inequalities were exacerbated.

10. **Severe disruptions in demand and supply chains created intense liquidity pressure across a variety of sectors, and previously healthy firms suddenly faced a real risk of running out of cash in a matter of weeks or months.** Furthermore, the liquidity pressure also presented the risk of transforming into credit events. During the first lockdown, corporate profits and investment dropped even more than output. At EU level, corporate profits fell by half and value added declined by around 25% in Q2 2020, a drop more than double the contraction observed in the second quarter of 2009 during the global financial crisis.[10] Furthermore, from March to September, firm-level estimates by the EIB's Economics Department indicate that 30% of small and medium enterprises and 17% of large corporates recorded negative profits, and 16% of small and medium businesses ran into negative cash positions.[11]

11. **Although the initial economic shock affected all sectors, some (including hospitality and tourism, cultural and creative industries, and air transport) were more adversely hit and are likely to show a slower recovery in the medium to long term.** The lockdown measures introduced from the end of Q1 2020 onwards to contain the pandemic brought the global and EU economy to a halt. In the European Union, most manufacturing-based industries started recovering relatively quickly in Q3 2020 (as lockdown measures were lifted and some sectors were recognised as "essential" to ensure cross-border transport and the functioning of supply chains). Enabling industries such as chemicals, construction, and the food and drink sector are likely to experience a V-shaped recovery. Despite the initial shocks, the automotive and textile industries have appeared to be on a recovery path since the first lockdowns. Sectors that are dependent on human contact and interaction, such as hospitality and tourism, cultural and creative industries and air transport (due to the decrease in mobility and tourism activities), have taken a substantial hit from the crisis, and they are likely to suffer from these unprecedented shocks for extended periods.[12] In addition, national variations in the application of lockdown measures and the composition of the economic structure meant that some countries' economies were more affected than others.

12. **The recurrent nature of the COVID-19 crisis, which is not a one-time shock, but comes and goes in waves, made it harder to predict its duration and identify when the recovery would start.** The economic impact of the second wave of the pandemic was weaker than the first, but some sectors continue to be under stress. Following the ramp-up of vaccination campaigns, particularly in advanced economies such as the European Union, the outlook for a recovery in 2021 and 2022 has turned positive, but substantial uncertainty remains. The EU economy is forecast to rebound faster than previously expected, as activity in Q1 2021 exceeded expectations and the improved health situation prompted a swifter easing of

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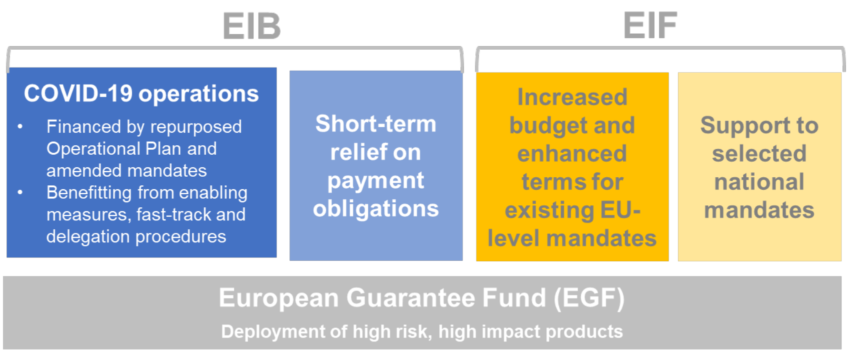
8 Source: IMF's World Economic Outlook, July 2021 update, available here.
9 Source: European Commission, Summer 2021 Economic Forecast, available here.
10 Source: EIB Economics Department, building on Eurostat's Institutional Sector Accounts.
11 Source: EIB Economics Department's estimates based on Orbis firm-level financial data.
12 Source: European Parliament, Impacts of the COVID-19 pandemic on EU industries, available here.

restrictions in Q2.[13] Real GDP is expected to reach pre-crisis levels in both the European Union and the euro area by mid-2022. However, a return to pre-crisis levels of economic activity would still mean slow growth for the EU economy in the next two years.[14] The EIB's economic analysis highlights the risks of permanent scarring for some sectors and the emergence of winners and losers, particularly as public policy support measures are lifted, and corporate bankruptcies that have so far been averted begin to materialise.

2.2 Main components of the EIB Group response

13. **In the face of the unfolding health crisis and economic recession, the EIB Group put in place a multifaceted response from March 2020 onwards,** aiming to address the diversity of its existing and potential clients' needs at the requisite speed and on the necessary scale. These components of the Group's crisis response are outlined in Figure 2 and described in more detail below.

Figure 2: EIB Group COVID-19 crisis response



Source: IG/EV

EIB: an immediate response combining the reorientation of existing resources and mandates with exceptional measures

14. **The EIB's immediate emergency response built on the repurposing of existing mandates and resources to help both existing and new operations address the consequences of the crisis.** The resources mobilised to fund this immediate response combined the EIB's own resources (via the partial repurposing of its operational plan for 2020), and the reorientation of existing mandates with the European Commission[15]. These resources were intended to serve EIB operations qualifying as "COVID-19 operations."

As per the emergency package approved by the EIB Board in April 2020, COVID-19 operations are either:

- Any and all pre-existing operations facing a need for financing to mitigate the impact of the crisis, across a wide range of sectors, products and geographies.

[13] Source: European Commission, Summer 2021 Economic Forecast, available here.
[14] Source: European Parliament, Impacts of the COVID-19 pandemic on EU industries, available here.
[15] Several of these reorientations of existing mandates were directed to small and medium enterprises: transfer of guarantee resources from the EFSI Infrastructure and Innovation Window to the EFSI SME Window, approval of a dedicated €2 billion programme loan for asset-backed securities purchasing programmes mobilised notably under the EFSI Hybrid Window, and improved terms and conditions and additional budgetary capacity for SME Window products (implemented by the EIF under the COSME Loan Guarantee facility and InnovFin SME Guarantee Facility). The other mandates impacted by the immediate response had a sector focus, notably the financial instruments under the Connecting Europe Facility, or the thematic Infectious Diseases Finance Facility and Energy Demonstration Projects Facility under InnovFin.

- New operations approved in response to the crisis, covering the sectors most affected by the crisis as a priority, but also indirectly affected projects [16]. The sectors to be covered as a priority were identified in April 2020 as:

  a) Healthcare, civil protection systems, medical supplies and pharma related to the emergency. Though all sectors eligible for EIB financing were covered, particular attention was paid to the health sector, both in terms of helping public sector counterparties deal with increased health expenditure, as well as continuing and enhancing the EIB's support in financing health and biotech innovation, for example in the area of vaccine development.
  b) Small and medium-sized enterprises, supported primarily through traditional products (credit lines and asset-backed securities).
  c) Vulnerable sectors, identified jointly by the Economics (ECON) Department, the Transactions Management and Restructuring (TMR) Directorate and the Group Risk and Compliance (GR&C) Directorate as being impacted by the economic effects of the COVID-19 crisis.

Figure 3: Typology of EIB COVID-19 operations

COVID-19 operations include...		Clients	Beneficiaries / sectors
New operations	"Priority"	Public sector	Healthcare, civil protection systems
		Financial intermediaries	SME support
		Larger companies of any size	Medical supplies and pharma related to the emergency
			Vulnerable sectors (automotive, transport, manufacturing, etc.)
	Other	Case-by-case	Indirectly free up capacity for the counterparties to finance COVID-related expenditures
Existing operations	"Priority" / Other	All	Any additional funding repurposed to clearly mitigate the effects of the COVID-19 crisis

Source: IG/EV

15. **A set of operational enabling measures was applied selectively to COVID-19 operations.** These measures were available from April 2020 to end-March 2021 [17]. Not all measures were applied to all operations, given that some were specific to a type of product, type of client, or a certain need. The measures had the following three objectives:

- Increase the volume and co-financing share of the financial support provided in view of the market's growing need for liquidity. The most critical measures supporting this objective were the increase of the EIB's share of financing for investment projects to above the traditional co-financing ceiling of 50%, as well as the mobilisation of a €5 billion envelope to top up existing operations with new financing to cover costs incurred by the crisis.
- Mobilise approved but unsigned and/or undisbursed amounts to help increase the flow of liquidity injected into the economy by offering temporary flexibility on specific project procedures.
- Address the economy's specific financing needs triggered by the COVID-19 crisis by expanding the categories of expenditure eligible for support to include working capital finance for intermediated lending, and additional health-related expenses for the public sector.

[16] Projects indirectly affected are defined as operations (in particular with public sector counterparties) which finance projects not directly related to the COVID-19 emergency, but aim to indirectly free up capacity so that counterparties can finance COVID-related expenditure. The eligibility of these indirectly affected projects was decided on a case-by-case basis.

[17] Unlike the operational enabling measures for other sectors, the exceptional measures applicable to the public health sector were extended until end-March 2022. They comprise: (i) continued widened eligibility to cover operational health expenses that include, but are not limited to, vaccines and vaccination campaigns; and (ii) an increase in the EIB's share of financing of the project investment cost, specifically for investments directly linked to mitigating the COVID-19 crisis in the public healthcare system, and to increasing future pandemic preparedness, the long-term resilience of health systems and the capacity to deliver essential public health services.

16. **In addition, the EIB introduced a number of measures aiming to alleviate short-term payment obligations for performing borrowers temporarily impacted by the COVID-19 crisis**. These measures, identified as "COVID-19 events" to differentiate them from the operational enabling measures, were intended to prevent performing borrowers from being classified as "non-performing" due to a temporary liquidity shortage or covenant breach, while also preserving the creditworthiness of the Bank's portfolio.

17. **The EIB also put in place a number of fast-track and delegation procedures to speed up the approval, signature and disbursement of COVID-19 operations.** In late March 2020, EIB services concluded that the Bank's current internal procedures, particularly in relation to appraisal and approval, would not allow them to quickly deliver operations in response to COVID-19. They identified a number of concrete measures to fast-track both the appraisal and approval timelines of COVID-19 operations without undermining the Bank's AML-CFT standards and ensuring increased vigilance towards associated risks. These measures were based on the Bank's previous initiatives for dealing with year-end bundling, and were introduced at different levels (board, management and services). The measures for speeding up appraisal included close cooperation among project teams, the prioritisation of analytical work related to signatures or top-ups of operations, the use of existing/standard legal documentation, and the shortening and simplification of the opinions provided. The Compliance, Inspectorate General and Legal teams at the EIB and their counterparts at the EIF closely cooperated to create a set of policy clauses which continued to protect the Group's position while reflecting the intermediated and double intermediated structures involved. For approval, the main procedural changes involved shortening dispatch deadlines and the increased use of written procedures for board approval (provided that no sensitive issues had been identified that would have required a discussion). In agreement with the European Commission and the EFSI Investment Committee, EFSI procedures were also temporarily amended to speed up approval.[18] In addition to these fast-track procedures which mainly concerned new operations, the Bank introduced a delegation framework for applying the enabling measures and top-ups for existing operations. Under this framework, decision-making authority was moved down by two hierarchical notches to Director-General or Director level, primarily for approving increases in financing amounts (top-ups) and fundamental changes to existing projects. These measures were discontinued as of 31 December 2020 when standard EIB procedures were applied to COVID-19 operations.

EIF response: repurposing existing mandates and engagement in new focused initiatives

18. **Similar to the EIB, the EIF's response to the crisis consisted mainly of topping up existing mandates with additional budgets to increase the amount of support available, as well as enhancing the terms offered, particularly under its biggest guarantee mandates: the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility.** A €1 billion guarantee available under the European Fund for Strategic Investments was allocated to the SME Window[19], expected to generate up to €2.2 billion in guarantees to unlock up to €8 billion in working capital loans for small and medium enterprises. EIF services agreed with the European Commission to secure enhanced terms for their guarantee mandates (primarily the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility, but also smaller guarantee mandates such as the Cultural and Creative Sector facility and the European Commission's Programme for Employment and Social Innovation instrument, and others).

19. **The EIF offered its increased budgets and enhanced terms for guarantee mandates through open calls for expressions of interest.** The same terms were offered to all financial intermediaries. Contract amendments for existing transactions were granted semi-automatically after intermediaries submitted their applications through an online form on the EIF's website. Furthermore, the EIF adopted a number of measures and actions intended to accelerate the deployment of its COVID-19 response on the ground; these are described in paragraph 43.

[18] For instance, deadlines for the dispatch of operations for approval at different levels were temporarily shortened, and sub-operations above the threshold of €50 million under the COVID-19 specific programme loans, which would normally be examined and approved individually, were approved under their respective programme loans.

[19] Including the transfer of €250 million from the Infrastructure and Innovation Window to the SME Window.

20. **In addition to the existing mandates listed above, the EIF introduced a number of national initiatives, the most prominent of which was the German Corona Matching Facility.** This facility consists of an indicative €500 million envelope provided by the KfW to the EIF, to be invested *pari passu* in venture capital funds targeting startups and innovative enterprises that are located in Germany and have a sustainable business model. Through the facility, the EIF co-invests in the funds' portfolio companies based on a matching ratio set in advance. The benefits are focused on ensuring investee companies have access to the financing they need to continue growing despite the tense economic context.

The EGF: a dedicated initiative to help businesses recover from the pandemic

21. **Beyond its immediate emergency response, the EIB Group joined forces with a subset of EU Member States to set up the Pan-European Guarantee Fund (EGF), a high-risk, high-impact mandate to support small and medium enterprises (primarily) and mid-caps.** The EGF was part of the overall package of measures agreed by the Eurogroup on 9 April 2020 and further endorsed by the European Council on 23 April 2020. It was created to address the need for a coordinated EU-level response that would complement national support schemes and, to some extent, help level the playing field. It also aimed to maximise impact with the average cost of the EGF expected to be lower than national schemes. It is an off-balance sheet mandate, whereby participating EU members contribute to a guarantee of €24.4 billion provided to the EIB Group, with the aim of mobilising up to €200 billion of financing for the real economy through high-risk, high-leverage financing products that will ensure support reaches a wide range of European companies.

22. **Originally, it was envisioned that the EGF would comprise all EU members, reaching a guarantee size of €25 billion, but five[20] opted out, slightly reducing the guarantee size and total additional investment target to €24.4 billion.** The objective of the EGF is to ensure that companies in participating EU members have sufficient short-term liquidity to weather the crisis, and are able to continue growing and developing in the medium to long term. This objective is to be reached within specific parameters, which are reflected in a set of EGF-specific key performance indicators.

23. **Under the EGF, the EIB deploys three main financing products: guarantees in the form of linked risk-sharing (with full delegation), venture debt and asset-backed securities.[21]** The EIF deploys equity, debt funds and guarantee products in cooperation with selected financial intermediaries for the benefit of small and medium enterprises and mid-caps.

[20] Czech Republic, Estonia, Hungary, Latvia and Romania.
[21] Securitisation refers to the act of turning an illiquid financial asset into a security that you can buy, sell or trade.

3. RELEVANCE OF EIB GROUP RESPONSE TO THE COVID-19 CRISIS

24. This chapter analyses the relevance of the (i) immediate EIB Group response that largely consisted of amending and enhancing existing initiatives, products and operations, and (ii) Pan-European Guarantee Fund, set up as a new off-balance sheet mandate. It seeks to understand whether the interventions' design and objectives respond to clients' and beneficiaries' needs, and whether they continue to do so as the economy evolves from an emergency to a recovery phase.

3.1 Was the EIB Group's immediate response relevant in the emergency phase of the crisis?

25. **Lessons learned from previous crises highlight that emergency responses should be agile, tailored to the needs of intended beneficiaries, and timely**. The COVID-19 health and subsequent economic crisis has specific features (global scale, unprecedented lockdown measures causing widespread economic disruption, recurrence of pandemic waves and associated lockdown measures, among others), and therefore required bespoke response measures. The evaluation built on existing literature to identify the overarching principles that should be applied when designing and implementing response interventions in such a context, namely:

    - Agility, combining the ability to analyse the changing economic outlook, to decide on tailor-made solutions and to reconfigure and mobilise resources to respond the crisis. A good understanding of the business environment (analytic work) is key to targeting businesses in need. Untargeted support may also artificially maintain "zombie firms."
    - Adequacy of the response to the needs of intended beneficiaries. Companies and public entities basically need solutions that allow them to breathe during the emergency phase of the crisis, and then to adjust during the recovery phase. Typically, liquidity and risk-sharing are needed in an emergency context, while new investments and/or recapitalisation are key requirements in the recovery phase.
    - Timeliness: businesses need help quickly, so the emergency financing must be delivered fast. Timeliness builds on coordination, fast-track approaches, flexibility, simplicity and expedience. The intervention should be phased out in accordance with how needs evolve.

3.1.1 How agile was the Group in setting up its immediate response?

Key messages:

- Within the constraints of their risk-taking capacity and available resources, both the EIB and the EIF were agile in analysing the problem, deciding on tailor-made solutions and mobilising the resources needed to respond.
- Agility allowed the Group to respond on the necessary scale: its COVID-19 response has constituted a significant portion of its overall activity since April 2020. The reorientation of mandates was particularly conducive to scaling up its response in favour of small and medium businesses.

26. For the purpose of our analysis, operational agility consists of the following: alertness to the changing outlook, the ability to decide on tailor-made solutions, and the ability to reconfigure and mobilise the necessary resources.[22]

27. **The EIB Group built on regular and diverse analytical inputs from its economics/research services and on feedback from clients so that it could stay alert to the crisis as it evolved.** The economic research and market analysis teams of respectively the EIB and the EIF provided regular analytical input on the financing needs of different client categories and market segments.[23] Teams from the Bank's Transactions Management and Restructuring (TMR) and

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[22] Building on the conceptual framework on agility developed by the Massachusetts Institute of Technology (MIT) Sloan Management Review. Available here.

[23] The Economics Department of the EIB had in place a number of survey instruments to gain a timely view of market needs. These include the EIB Investment Survey (EIBIS), the EIB municipality survey (within the European Union), and the bank surveys and enterprise surveys outside the European Union. The EIF's Research & Market Analysis team conducted several private equity surveys, including the EIF Venture Capital survey, the EIF Private Equity Mid Market Survey, and the EIF Business Angel Survey. All of them were exceptionally run twice in 2020.

Group Risk and Compliance (GR&C) Directorates also analysed the vulnerability of EIB counterparties depending on their nature and sectors of activity, in order to provide a consistent basis for decisions to grant temporary waivers, payment deferrals or top-up financing. EIB and EIF services were also proactive in seeking (through informal channels or surveys) and using the feedback of clients and partner financial intermediaries. On that basis, the Group identified potential areas in need of support at an early stage and deployed both immediate and more medium-term response measures. The EIB was quick to identify tailor-made solutions: an overall operational emergency approach was already presented to management at the end of March 2020 — at the height of the first wave of COVID-19 cases in Europe — and approved by the board in April 2020. On the side of the EIF, the calls for expression of interest for InnovFin SME Guarantee Facility and the COSME Loan Guarantee Facility (the two largest existing mandates repurposed to address the COVID-19 crisis) were published in April 2020 for a June 2020 closing.

28. **Second, the Group designed adequate solutions, within the constraints of its risk-taking capacity, available capital and resources under existing operational plans and mandates**. The Group's immediate response was conditioned by the ability to redirect finite resources available under the existing operational plan and pre-existing mandates. Risk-taking capacity was also an important determining factor: in a context of widespread economic disruption and heightened uncertainty about the length, evolution and effects of the crisis, the Group, and particularly the EIB, had to account for the potential impact on its credit risk portfolio. These interlinked constraints — finite capital and risk-taking capacity — largely explain the type of immediate measures deployed by the Bank and the EIF.

- The EIB mainly deployed measures that did not consume capital (expanded eligibility, such as for working capital financed under EIB operations, or new types of financing products). Within the limits of its existing operational plan, and taking account of the risk posed by the crisis to the performance of its credit portfolio, the EIB also engaged selectively in measures that did consume capital, in the form of increased financing volumes provided via top-ups or new operations. These were combined with waivers and payment deferrals for clients affected by the crisis.
- For the EIF, whose response primarily mobilised guarantee mandates provided by other stakeholders (such as the European Commission and, in a few cases, EU members), the scale and type of response were conditioned by the mandator's willingness to increase its commitments in terms of budget and risk-taking capacity. The EIF agreed and introduced with the Commission enhancements to the terms and conditions offered under its largest guarantee mandates, taking their established presence in several EU members and good market reception into consideration. Beyond enhancing existing initiatives, the EIF engaged in a number of new, focused schemes, responding to demand from EU members (for example the German Corona Matching Facility and the Bulgarian Documentary Facility), or policy priorities (such as the InnovFin Recovery Equity Facility for Innovative Technology Companies).
- In that sense, the Group needed the EGF, as a new high-risk mandate, to scale up its risk-taking capacity beyond the constraints of the existing operational plans and mandates (see Section 3.2 below).

29. **With these constraints in mind, the EIB demonstrated flexibility, particularly in adjusting the orientations for its different public policy goals to focus more on its objective for small and medium enterprises**. The reorientation of several initiatives with the European Commission was particularly conducive to increasing the ambition of the EIB's 2020 operational plan in favour of small and medium enterprises.[24] IG/EV's recent evaluation of the European Fund for Strategic Investments (EFSI) found in particular that it had sufficient built-in flexibility to react and adjust quickly (by shifting resources to support small and medium enterprises and mid-caps), which made it particularly suitable as a crisis response.

[24] Including the transfer of guarantee resources from the EFSI Infrastructure and Innovation Window to the EFSI SME Window, the approval of a dedicated €2 billion programme loan for asset-backed securities purchasing programmes mobilised notably under the EFSI Hybrid Window, and the improved terms and conditions and additional budgetary capacity for SME Window products (implemented by the EIF under the COSME Loan Guarantee facility and the InnovFin SME Guarantee Facility).

30. **This agility allowed the Group to respond at considerable scale: its COVID-19 response has constituted a significant portion of its overall activity since April 2020**. EIB operations benefiting from COVID-19 enabling measures represented slightly more than a third of the EIB's business in 2020 (35% of total signed amounts, which is significant given that the operations were introduced from mid-April 2020), and 38% of total signed amounts in the first half of 2021. The EIF's mandates with a significant COVID-19 component accounted for 24% of total signatures in 2020 (bearing in mind that the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility were coming to an end in 2020, and the majority of their budget resources had been largely absorbed, before an additional budget was provided for the COVID-19 response). Calls backed by the increased COVID-19 budget were oversubscribed, and the available budget was absorbed very quickly. EGF transactions accounted for the majority (81%) of EIF transactions in the first half of 2021, as other mandates expired at the end of 2020 (end of the Multiannual Financial Framework), and all resources had so far been directed to the COVID-19 response.

3.1.2 Was the immediate response adequate for addressing the emergency needs of the economy?

Key messages:

- In the first half of 2020, the lockdown measures introduced to contain the pandemic created acute liquidity needs for a large portion of firms. The COVID-19 pandemic also placed significant strain on the financial resources of public authorities (at local and regional level) as they faced high operational expenditure and needed available liquidity at short notice.
- Overall, the EIB Group's immediate response was adequate for addressing these emergency needs.
- EIB Group guarantees and risk-sharing products primarily addressed financial intermediaries' need for credit risk protection and capital relief. As regards intermediated lending, the intermediaries surveyed strongly valued the Group's long-term funding on favourable terms, followed by the reputational benefit of working with the EIB. The support was relevant to helping preserve lending on favourable conditions to companies, including final beneficiaries with difficulties in accessing finance.
- EIB support for corporate and public sector clients addressed a range of client needs primarily related to access to long-term funding with lower costs and longer loan tenors.

The emergency phase of the crisis was characterised by massive liquidity needs for working capital across a range of client types, particularly for small and medium enterprises

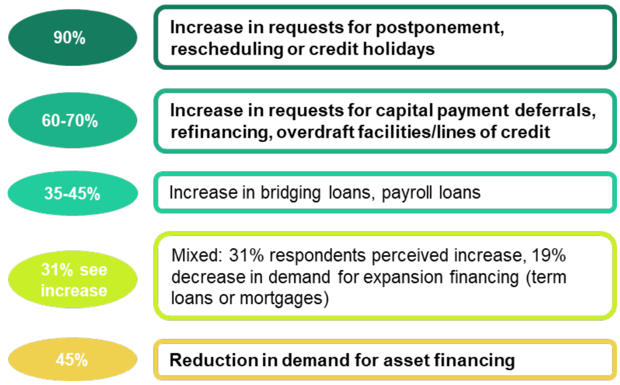
31. **In an environment of strained liquidity and high uncertainty, demand for liquidity increased as firms needed to finance their working capital requirements or build precautionary liquidity buffers.** Demand for bank loans/credit lines soared to record levels in the first half of 2020, as firms needed to bridge their liquidity shortages or build precautionary buffers in a context of high uncertainty. The measures taken to contain the pandemic in the first wave (first half of 2020), and reintroduced in some cases in autumn 2020, put a heavy strain on the activity and liquidity of many companies. While companies' revenues came to a halt, financial commitments to suppliers, employees, lenders and investors remained, depleting the liquidity buffers of firms. Sticky operating expenses resulted in many firms running operating losses, placing an additional burden on cash buffers. According to successive waves of the Bank Lending Survey by the European Central Bank (ECB), euro area banks perceived a substantial increase (compared to the previous quarter) in firms' demand for loans in Q1, and further in Q2 2020, followed by weak to moderate decreases in Q3 and Q4 2020. Compared to larger companies, small and medium enterprises were affected the most, particularly in Greece, Spain, Portugal, Italy and France, where the perceived needs and financing gaps for this category of company were the highest.

32. **The type of financing needed concerned mostly overdraft facilities and lines of credit with the purpose of covering working capital needs, while demand for asset financing fell.** According to IG/EV's survey of financial intermediaries who received EIB and EIF COVID-19 support, between 60% and 80% of intermediaries reported an increase in demand for

overdraft facilities and lines of credit in the previous year. At the same time, between 50% and 80% of intermediaries reported a decrease in demand for asset financing. The picture was mixed regarding demand for expansion financing (such as term loans or mortgages). Evidence from the ECB's Survey on SMEs' Access to Finance (SAFE) also points to a higher demand for working capital and a decline in fixed investments in 2020. Such trends were particularly strong for small and medium enterprises (whose working capital needs were more pressing as they have much thinner operational buffers and rely more heavily on external financing), compared to larger firms (which had less pressing needs for working capital and appear to have recovered and slightly increased their fixed investments relatively faster).

33. **Firms also increased their requests for postponements of debt obligations, rescheduling of payment dates or credit holidays.** According to IG/EV's survey of financial intermediaries who received EIB and EIF COVID-19 support, close to 90% of intermediaries reported an increase in requests for postponements, rescheduling or credit holidays. This trend is corroborated by the steep increase in requests for waivers of financial covenants and other measures received by EIB services from corporate clients since the beginning of the COVID-19 crisis.

Figure 4: Financial intermediaries' perception of changes in SME demand for financing due to the COVID-19 crisis



Source: IG/EV survey, 89 respondents, 47% response rate (89/189)

34. **The negative effects of the crisis were stronger for contact-intensive economic sectors, such as accommodation and hospitality services, tourism, entertainment and arts, transport and, to some extent, manufacturing.** Simulations by the Organisation for Economic Co-operation and Development (OECD) indicate that without policy intervention, more than half of the firms predicted to experience liquidity shortages as a result of the COVID-19 crisis were in the "accommodation and food service activities," "transport" and "arts, entertainment and recreation" sectors; by contrast, the "utilities," "information and communication" and "professional services" sectors display a share of illiquid firms consistently below 20% in the sample studied.[25] Furthermore, the effects were estimated to be more negative in sectors with lower intangible intensity[26] and with high external finance dependence. Intangible-intensive firms tend to keep larger cash buffers in normal times, and can mobilise innovative technologies and teleworking arrangements, and therefore may experience a less severe sales shock.

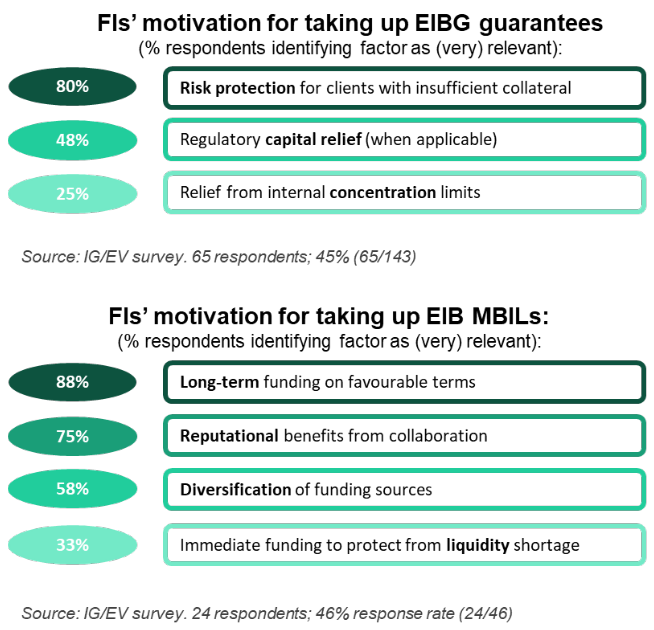
35. **The financial resources of public authorities (at local and regional level) were also put under strain, driven not only by emergency health spending, but also by decreased revenues, as well as the need to continue financing ongoing investment projects.** Public health authorities were at the forefront of COVID-19 crisis management. Across the European Union, local and regional authorities are responsible for more than half of public investment and approximately one-third of all public expenditure. In two of the EU members most negatively affected by the COVID-19 crisis, Italy and Spain, local and regional authorities are responsible for more than 90% of health expenditure. Local and regional authorities faced a "scissors effect": rising expenditure in key areas such as health, social benefits and services, and support for small and medium enterprises, in combination with declining revenues due to drastic reductions in economic activity and therefore the tax base. In a recent survey by the European Committee of the Regions and the OECD, the majority (76%) of respondents from local and regional authorities indicated that the lack of financial resources was a challenge for managing the

[25] Source: Liquidity shortfalls during the COVID-19 outbreak: assessment and policy responses.
[26] Intangible intensity is defined as the ratio of intangible assets to total assets (tangible and intangible). Low intangible intensity points to firms with relatively more tangible assets (e.g. plants and equipment) than intangible assets (e.g. patents and trademarks).

COVID-19 health crisis at its peak. 39% indicated that it was "very challenging" while 37% indicated that it was "somewhat a challenge." From IG/EV's analysis of project documents justifying the use of the operational enabling measures (including top-ups), close to 70% of projects with public sector counterparties needed some form of support to continue project implementation.

The EIB Group's support helped address the emergency needs of the economy, with products that catered to a range of different client needs

Figure 5: How EIB Group intermediated products addressed the needs of financial intermediaries (FIs)

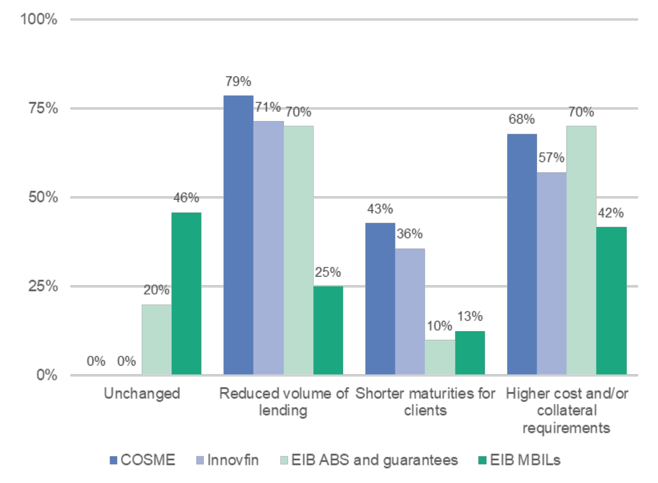


36. **EIB Group guarantees and risk-sharing products were found to address financial intermediaries' needs for credit risk protection and capital relief**, and in turn, were conducive to maintaining lending dynamics in a context of high demand. As part of its emergency response, the EIB Group mobilised tried-and-tested intermediated products, in the form of guarantees, risk-sharing products and multi-beneficiary intermediated loans. Evidence from IG/EV's surveys of financial intermediaries (for EIB and EIF operations) and interviews with key representatives of the banking sector indicates that guarantees and risk-sharing products largely addressed intermediaries' needs. For the financial intermediaries surveyed, the primary motivation for taking up these products was to receive risk protection for clients which would otherwise not have been supported due to insufficient collateral (approximately 80% scored risk protection as relevant or very relevant). Interviews with representatives of the banking sector indicate that even though the EIB Group's intermediated products were appreciated, the Group's reaction was not as strong or as quick as national-level initiatives focusing on risk protection and capital relief, which were in general found to be deployed quicker. It is also worth noting that EIB Group guarantees were just one source of support among a panoply of policy measures that were mobilised to address firms' heightened needs for liquidity, across multiple EU members and economic sectors.

37. **As regards intermediated lending, the evidence points to appetite in the banking sector for long-term funding on favourable terms, but less for protection against a liquidity shortage**. For the financial intermediaries surveyed, the primary motivation for taking up the EIB's multi-beneficiary intermediated loans was access to its long-term funding on favourable terms (88% of respondents identified this access as a relevant or very relevant factor), followed by the reputational benefits of a collaboration with the EIB. Protection against an urgent liquidity shortage was less of a motivation for the intermediaries to apply for EIB credit lines, particularly because the ECB's massive pandemic emergency purchase programme primarily covered urgent liquidity needs on very favourable terms.

38. **The EIB Group's intermediated support contributed not only to helping financial intermediaries respond to higher demand for loans, but also to preserving lending on favourable conditions to companies, including final beneficiaries with difficulties in accessing finance.** Approximately three-quarters of financial intermediaries report that the lending volume to the market segment they support would have been reduced in the absence of EIB Group support. Furthermore, the economic and policy literature so far concludes that COVID-19-related government guarantees were important in supporting increased bank lending and the easing of credit standards for loans to companies in 2020. Credit standards for loans to companies with COVID-19-related government guarantees were further relaxed in the second half of 2020, after a strong easing when the measures were introduced. By contrast, credit standards for loans to enterprises without government guarantees tightened in 2020. According to the financial intermediaries surveyed, the key benefits of EIB Group support for their SME clients were access to cheaper financing (particularly for EIB products), and access to financing when no or limited collateral was available (EIF products). The available literature indicates that intermediated lending and guarantee instruments have positive effects on the growth and economic performance of small and medium enterprises beyond the fulfilment of their immediate financing needs. While the literature focuses on the use of guarantees in a stable economic context rather than in a crisis, it is reasonable to expect that such positive effects would be amplified in a crisis context. Most evidence points to strong positive effects in terms of employment, followed by an increase in sales. Recent EIB research also finds positive effects on firm size, investment and innovation capacity. Though not studied as extensively, available evidence also points to higher survival rates for small and medium enterprises that benefited from credit guarantee schemes, which is particularly relevant in the context of a crisis.

Figure 6: Likely effect of the absence of EIB Group support on lending dynamics



Source: IG/EV survey: 89 respondents, 47% response rate (89/189)

39. **Direct lending products addressed corporate and public sector clients' need for liquidity on favourable terms to enable them to continue or complete their ongoing investments.** According to IG/EV's survey of corporate and public sector counterparties that benefited from EIB COVID-19 support, including top-ups of existing operations, their main motivation for applying for EIB financing was the lower cost of financing (83% of respondents), followed by longer loan tenors (77%). This is in line with findings from recent evaluations of the EIB's additionality, which indicate that the main aspect of this additionality is financial and specifically lower pricing.[27] In the absence of EIB financing, the majority of clients (94%) reported that they would have obtained financing from other sources, but at a higher cost. As a result, the scale, scope or speed of the project would have been impacted in 56% of the cases surveyed. Similarly, for the subset of operations that received additional funding in the form of top-ups, the main purpose was to avoid implementation delays due to insufficient funding (as reported by 50% of survey respondents). In terms of the sectors supported with top-ups, the review of EIB project documentation suggests that these were in line with the sectors worst hit by the crisis, namely transport and manufacturing.

[27] IG/EV's Evaluation of the EIB's Special Activities, 2021.
IG/EV's Evaluation of EIB Cohesion financing (2007-2018), 2021, available here.

3.1.3 How quick was the deployment of the immediate response, and how timely was its phasing-out?

Key messages:

- Past evaluations of crisis responses insist on the importance of: (i) transferring resources as quickly as possible to the economy, and (ii) carefully managing the transition from the emergency phase towards the recovery phase.
- Enabling measures, delegation and fast-track procedures applied to EIB COVID-19 operations significantly accelerated the time to first disbursement. Likewise, the EIF adopted a number of actions which increased the speed of deployment, particularly for its guarantee products. Altogether, these actions achieved the objective of quickly addressing the liquidity shortage faced by the economy.
- In addition to enabling measures, recourse to existing products and existing clients helped both the EIB and the EIF deliver quickly.
- In December 2020, the EIB Board of Directors decided to prolong the availability of enabling measures for only one more quarter and to discontinue them after March 2021, except for public health sector operations. This decision was made while demand and supply chain disruptions — notably due to persisting lockdowns — were still affecting several sectors of the EU economy and the economic situation was largely unpredictable. Although the undertaking is inherently difficult, the specific nature of this crisis that results from a pandemic suggests that more flexibility would have been needed in the phasing-out of the EIB's emergency support.

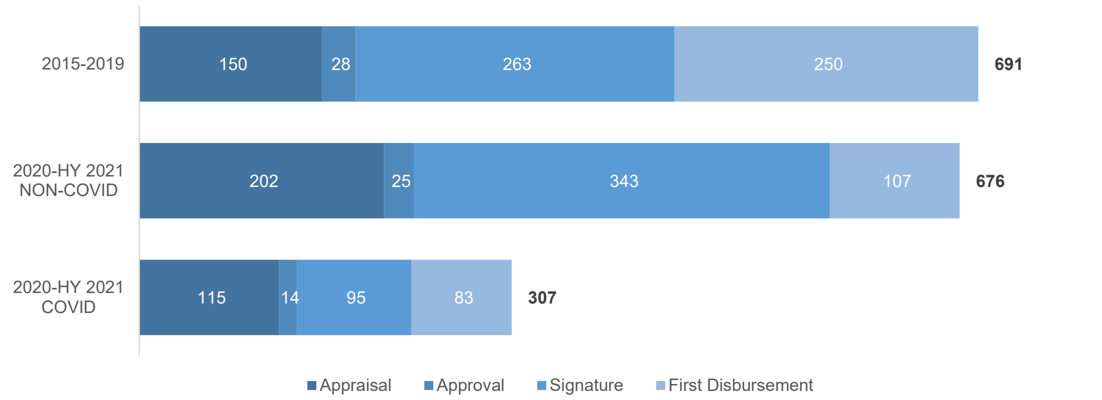
The mobilisation of existing products and mandates, the operational enabling measures and fast-track procedures introduced by the EIB Group were conducive to a quick deployment of funding

40. **The EIB's delegation and fast-track procedures as well as specific operational enabling measures were aimed at accelerating the provision of financing.** Past evaluations of emergency situations concur on the importance of transferring resources as quickly as possible to the economy. Businesses need help quickly, so international financial institutions must act fast. Timeliness builds on coordination, fast-track approaches, flexibility, simplicity and expedience. As such, the EIB set itself the objective of addressing short-term liquidity needs with speed, including by expanding the range of expenses eligible for support and by mobilising fast-track processes. The set of operational enabling measures was meant to put these into practice. In addition, the EIB approved the delegation of the implementation of these enabling measures, as well as temporary fast-track procedures to shorten the dispatching deadlines and appraisal process of COVID-19 operations.

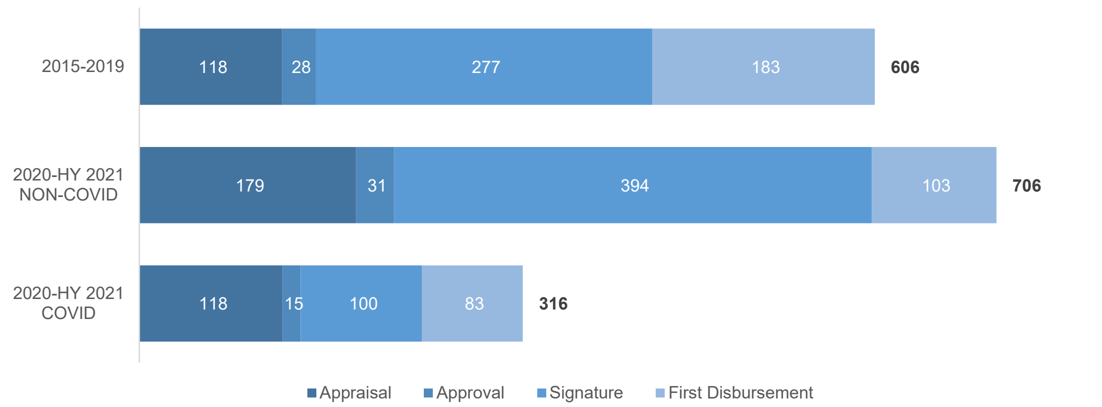
41. **These measures were conducive to significantly accelerating the time to first disbursement for the overall portfolio of EIB COVID-19 operations.** Compared to the average trends in previous years and to non-COVID operations in 2020, EIB COVID-19 operations were more than twice as fast in moving from the launch of the project appraisal to the first disbursement (307 days, see Figure 7.a). The most significant acceleration was observed in terms of signature: COVID-19 operations progressed from approval to signature three times faster than non-COVID-19 operations over the same period or previous years. Time savings were even greater for direct lending operations (see Figure 7.c) than for intermediated financing. Compared to the other phases of the project cycle, the time dedicated to the appraisal of projects — aimed notably at verifying their quality and the robustness of clients — is only slightly reduced (94% of the time normally required for multi-beneficiary intermediated loans and two-thirds of the time normally required for loans for SMEs).

Figure 7: Speed of the EIB's COVID-19 operations compared to past and concomitant operations (average duration of each phase of the project in days)

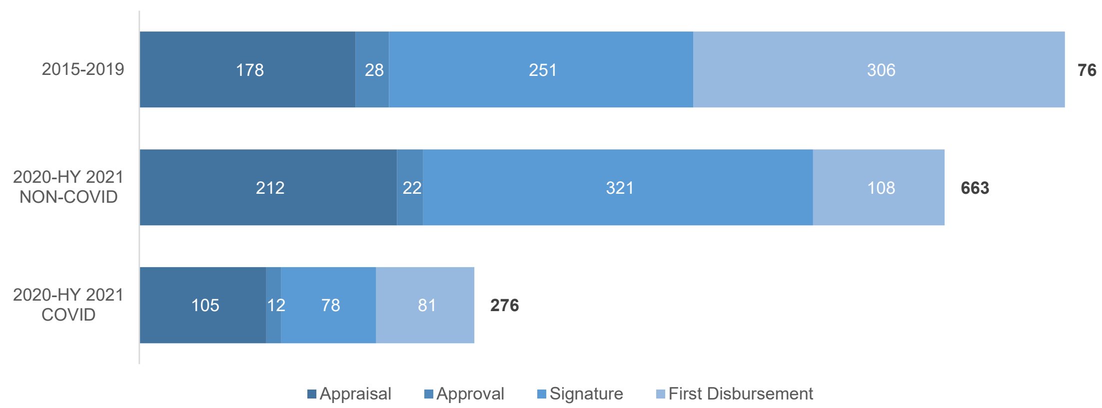
7.a Overall portfolio



7.b Intermediated financing operations[28]



7.c Direct lending operations



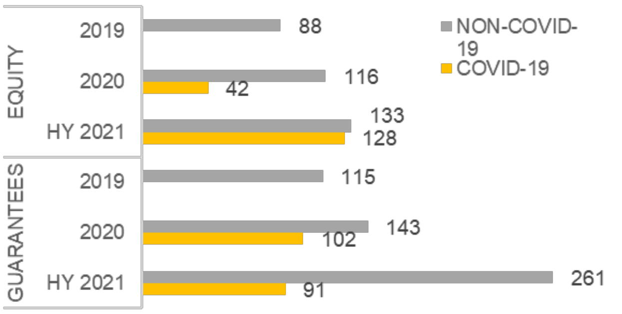
Source: IG/EV, based on EIB data, 2015 to mid-2021.

28 Intermediated financing operations include equity (captive, climate, and infrastructure funds, and venture capital), multi-beneficiary intermediated loans and risk-sharing operations.

42. **In addition to operational enabling measures, recourse to existing products and existing clients helped both the EIB and the EIF deliver quickly.** For their emergency response, both the Bank and the EIF mobilised proven existing products, and worked principally with existing clients[29] or expanded existing mandates (as shown by the EIF with the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility). This approach is in line with best practice: at an operational level, past evaluations of emergency responses indicate that working with "tried-and-tested" intermediaries and deploying a limited number of already tested and fast-disbursing products help with a quick deployment. The option offered by the EIB to top up existing operations was particularly conducive to quickly delivering financing on the ground: existing operations had usually already reached the disbursement phase and therefore have had a significantly higher level of disbursements than new operations.

43. **The EIF adopted a number of measures and actions which were conducive to a quick deployment of its COVID-19 response.** The average number of days between approval and signature or commitment (for equity and guarantees, respectively) was on average shorter, when compared to the average trends in previous years and to non-COVID operations during the same period (see next figure). The increase in speed is particularly significant for guarantee products. Several factors explain this observation. First, a number of measures were taken at the level of the EIF Board to achieve a speedier treatment of requests for approval.[30] Second, the EIF acted quickly by publishing the calls for expression of interest for the COSME Loan Guarantee Facility (LGF) and InnovFin SME Guarantee Facility (SMEG) as early as April 2020 with closing in June 2020, which resulted in oversubscription. Third, as global authorisations were in place for most of the EGF products implemented by the EIF, its overall approval process was simplified and made quicker as only a limited number of transactions required approval by the EGF Contributors Committee. Some of the EIF deals under the EGF were top-ups of funds that required additional support to reach their target fund size. For those transactions the due diligence and legal negotiation processes had already been implemented, so they could be approved and signed quicker. However, the implementation of the EIF's intermediated products was impacted by two factors: i) uncertainty about compliance-related standards that needed to be agreed between the EIB Group and the European Commission regarding sanctions (under COSME and InnovFin); and ii) the EIF's capital situation and the need to implement a capital enhancement mandate with the EIB to provide the capacity to enter into the guarantee commitments. Both factors combined delayed the implementation of InnovFin by several months.

Figure 8: Speed of the EIF's COVID-19 operations compared to past and concomitant operations (average days between approval and signature/commitment)



Source: IG/EV based on EIF data

44. **Under COSME LGF and InnovFin SMEG, the EIF offered contract amendments to its operations in a diligent manner (all measures were offered in a single batch). But this practice is not necessarily replicable by the EIB.** Once the enhanced terms of COSME LGF and InnovFin SMEG were agreed with its mandator, the EIF offered the complete set of measures to all financial intermediaries through a contract amendment application form that was available online. By contrast, the EIB's enabling measures were offered "à la carte": front officers had to offer clients the specific enabling measures they found most appropriate. This tailor-made approach made the rollout of the EIB's enabling measures longer and the administrative burden was probably more time-consuming. However, it would be difficult for the EIB to move away from a tailor-made approach. First, the EIB works with client-specific contractual documents which are not as conducive to generic amendments, as opposed to the

[29] EIB: 82% of COVID-19 signed operations amounts, at mid-2021, were directed towards existing clients.
[30] This includes, among other things, streamlining the compliance risk assessment and the request for approval template.

more standardised product offering available under COSME and InnovFin. Second, EIB financing operations are often secured and any amendments to the financing obligations require the consent of the security grantor, amendments to security documents, renewals of securities, etc. Amendments could therefore not be applied across the board. Finally, for investment loans or framework loans, project officers must review each case individually to assess the extent to which applying enabling measures may affect project implementation and/or the promoter's capacity to deliver in line with EIB standards.

An abrupt phasing-out of the EIB's emergency response

45. **The literature insists on the importance of carefully managing the transition from the emergency phase towards the recovery phase, especially since this crisis results from a pandemic.**[31] Its economic consequences are multi-layered and come in several waves over a protracted period. As opposed to a U-shaped recovery from crises resulting from natural disasters, the recovery associated with pandemic-related crises is contingent on the end of lockdown measures, vaccination rollouts and the containment of variants. As such, it tends to follow more of a "W shape."

46. **The requests received by the Group for financing, temporary waivers and payment deferrals were closely correlated to the spring and autumn 2020 lockdowns, which suggests that requests may surge again if one or more new lockdowns are imposed.** There have been two waves of COVID-19 events and financing approvals and they took place during the spring and autumn 2020 lockdowns. A peak in COVID-19 events has always preceded a peak in financing approvals by one or two months, as shown in Figure 9. Furthermore, the pipeline received from the EIB's transactional departments indicated that there was continuous and widespread demand for a variety of its COVID-19 enabling measures throughout 2021.

47. **Studies**[32] **clearly point out the unpredictable nature of the crisis, and therefore of emergency needs.** Such uncertainty stems not only from the possibility of more waves or variants of the virus bringing more lockdown measures and economic disruption, but also from the fact that the widespread economic support measures have so far enabled many companies to stay afloat despite not being financially viable. The incidence of corporate bankruptcies in the European Union was below long-term trends throughout 2020 and early 2021, creating the risk that once public support is withdrawn, many companies might face insolvency and, ultimately, bankruptcy. Until vaccination becomes widespread, economic performance remains subject to the dynamics of the virus.

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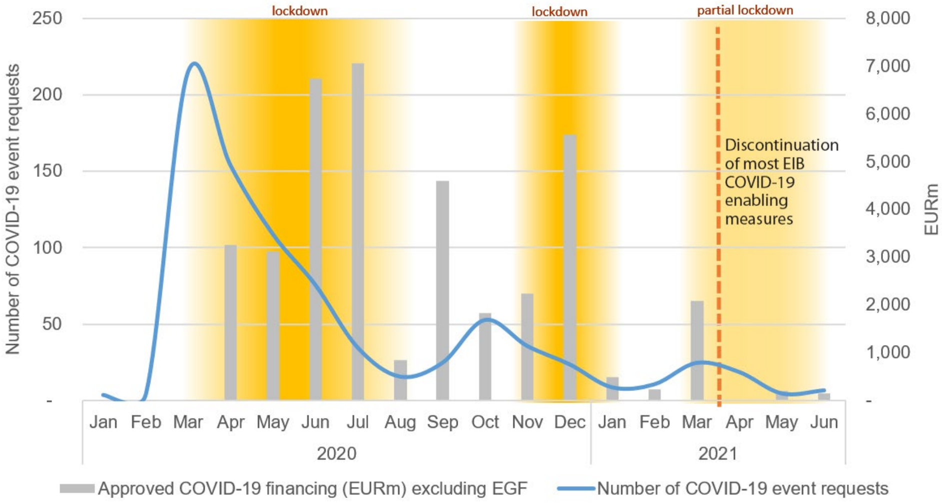
[31] Sources:
- Supporting jobs and companies: A bridge to the recovery phase - OECD (oecd-ilibrary.org)
- Are we there yet? The transition from response to recovery for the COVID-19 pandemic – ScienceDirect.
- IMF & World Bank recommendations regarding the regulatory and supervisory implications of COVID-19 for the banking sector (here).

[32] Sources: OECD, Supporting jobs and companies: A bridge to the recovery phase (10 March 2021), available here. OECD, One year of SME and entrepreneurship policy responses to COVID-19: Lessons learned to "build back better" (8 April 2021), available here. European Commission – DG ECFIN: CORPORATE SOLVENCY OF EUROPEAN ENTERPRISES: STATE OF PLAY, Note to the Eurogroup Working Group (1 February 2021), available here.

Figure 9: Monthly evolution of EIB COVID-19 events (requests) and EIB COVID-19 financing (approvals excluding under the EGF)



Source EIB COVID-19 events: analysis undertaken by IG/EV for indicative purposes only (not intended for reporting or accountability), based on EIB data.
Source EIB COVID-19 financing approvals excluding EGF: IG/EV based on the EIB data. For the purpose of this analysis, only the EIB's COVID-19 operations eligible for enabling measures are presented; EGF operations were not eligible for COVID-19 enabling measures and are therefore not presented here.

48. **During the first half of 2021, many companies were still struggling with emergency needs**. At the end of Q1 2021, uncertainty about future developments remained high: a third wave was underway[33] and strict containment measures were still being implemented in several regions of Europe. In March 2021, the OECD pointed out that many companies — in particular small and medium businesses in the most affected sectors — were considered to be on the verge of bankruptcy unless clarity was given on the support they would be able to secure to endure a protracted period of uncertainty and low (or no) activity.[34] The OECD found that the gap was growing between firms that have recovered and those that remain financially weak and may never recover, and recommends that the transition towards the beginning of the recovery phase be managed appropriately, as many companies are still struggling with emergency needs. Furthermore, the European Parliament found that compared to the global economy, the euro area experienced a larger hit in 2020 and will experience a slower recovery in 2021.[35]

49. **However amid high uncertainty, the EIB Board decided in December 2020 to prolong the availability of enabling measures for only one more quarter and to discontinue them after March 2021, except for public health sector operations**. In communications to the board in late 2020, EIB management pointed to the persistent need for liquidity which increased the risk of insolvency, and the largely unpredictable length of the crisis. At the time, the utilisation of EIB enabling measures had not yet reached 100% and EIB services expected more absorption in the following months. EIB management therefore requested an extension of enabling measures to mid-2021 to allow for their further absorption. This request was supported by analytical material (pointing out the persistent need for liquidity support and enabling measures throughout 2021, the continuation of lockdown measures, and the unpredictable length of the crisis) and by feedback from EIB clients (pointing out the persistent need for COVID-19 support measures throughout 2021). However, the EIB Board decided in December 2020 not to fully endorse this proposal and instead decided to only authorise an extension of these measures to the end of Q1 2021. After this date, the EIB Board approved an extension of the operational enabling measures only for public health sector projects receiving board approval by

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[33] Financial Times, Europe's third wave: 'It's spreading fast and it's spreading everywhere' (4 April 2021).
[34] Source: OECD Policy Responses to Coronavirus (COVID-19), Supporting jobs and companies: A bridge to the recovery phase (10 March 2021).
[35] Source: de Vet, J.M, et al. Impacts of the COVID19 pandemic on EU industries, Publication for the committee on Industry, Research and Energy, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2021. Available here.

31 December 2022, and having a subsequent project implementation period of up to five years. Although the undertaking is inherently difficult, the specific nature of this crisis that results from a pandemic means that more flexibility would have been needed in the discontinuation of the EIB's emergency support.

50. **For the EIF, the phasing-out process was contingent on the full use of available resources under mandates.** Approvals under COSME and InnovFin were complete by the end of 2020, and the entire budget had been fully allocated, leaving no room for an extension under current mandates.

3.2 Is the EGF an adequate response to the COVID-19 crisis?

3.2.1 Is the EGF's design suitable for addressing the emergency and recovery needs?

Key messages:

- The EGF was set up to respond to the economic impact of the COVID-19 pandemic by ensuring that EU companies (and primarily SMEs) have sufficient liquidity available to weather the rapidly unfolding crisis, and are able to continue their development in the medium to long term.
- For the EIB Group, the EGF was needed to offer risk coverage and capital relief, beyond what it could have offered under its own resources and existing mandates.
- The EGF was formally established significantly faster than other EIB Group mandates. It is worth noting the extraordinary efforts of the EIB Group to originate, present and obtain the approval of this initiative not only in a very short period of time, but also in a challenging operational context.
- However, the EGF experienced an approximately six-month delay in its operational launch, which was partially due to the time needed to reach consensus amongst contributors on key EGF design aspects, and partly to the requirement to go through the EU State aid clearance process (necessitated by the mobilisation of EU members' resources).
- This delay caused the EGF products to become less attractive for financial intermediaries because they had less time to build up the portfolio covered by these products.
- This delay also reduced the EGF's relevance as a countercyclical response to the liquidity crisis: it became operational when urgent liquidity needs had already been largely addressed.
- The EGF is relevant with regard to its objective of ensuring that EU firms have access to liquidity to be able to continue their growth and development in the medium to long term, primarily by providing risk coverage and capital relief to financial intermediaries.
- Going forward, the EGF's quasi-equity products are relevant for helping firms remain solvent and continue to invest. As the pandemic has left many firms with debt overhang and at risk of insolvency, their needs have evolved towards more subordinated debt solutions, such as hybrid instruments. The EGF offers products relevant to these needs, but has insufficient built-in flexibility to scale up its efforts on that front.

51. **The EIB Group needed the EGF to address the substantive market needs for risk coverage and capital relief beyond what it could have offered with its own resources and existing mandates.** The EGF has a dual objective: ensure companies obtain short-term liquidity to weather the crisis (liquidity response) and ensure companies are able to continue their growth and development in the medium to long term (recovery response). As a high-impact mandate, the EGF was expected to achieve more for these objectives, compared to what would have been achieved under the Group's own resources or existing mandates. The design of the EGF reflects this ambition to rapidly deploy a high volume of financing support by mobilising high-risk, high-impact financing instruments. This necessitated the inclusion of instruments with a potentially high multiplier effect on the economy, including via risk coverage and capital relief for the financial sector. Its product palette was agreed between the EIB Group and the contributing EU members at inception, with a specific share of the budget earmarked for each product. These shares have evolved over time due to a combination of reasons (delays in the deployment of some products, strong market demand for others, etc.).

- The EIB's ***linked risk-sharing instrument*** (deployed through national promotional banks and financial intermediaries) has so far been the flagship EIB product under the EGF, generating robust market demand. It is allocated the largest proportion of EGF budget resources (€8.8 billion, 36% of the guarantee). It aims to improve companies' access to finance through capital relief and loss protection for portfolios of newly originated eligible transactions, and to alleviate limits on individual obligors/sectors. Through these benefits, it helps create additional lending capacity and easier access to finance for final recipients, typically on beneficial terms in the form of reduced interest rates, longer maturities and/or lower collateral requirements. The target beneficiaries are mid-caps, large corporates and public sector companies and entities active in the area of health (including research or essential services related to the health crisis).[36] In line with the instrument's purpose as a crisis response, eligible transactions under linked risk-sharing go beyond the standard, encompassing not only investments but also working capital/liquidity needs (including supply chain finance). An additional feature in this instrument, made possible by the EGF's high-risk nature, is the full delegation of the underlying loan origination, structuring, approval, monitoring etc. to the financial intermediaries (while normally the EIB would have to approve underlying loans).
- In addition to risk-sharing, the EIB ***venture debt instrument*** (with a €1 billion EGF guarantee allocated, and approximately €850-900 million expected to be utilised) aims to provide liquidity to innovative startups (SMEs) that are affected by the COVID-19 crisis or develop services or products that alleviate its impact (diagnostics, treatments and vaccines, for example, as well as new technologies such as automation and robotics that contribute to crisis resilience). The EIB provides venture debt finance through two channels: either with direct investments in the form of ***quasi-equity***, legally structured as debt instruments with upside participation, including convertible financing with a buyback option, or through ***venture debt co-investments*** using a delegated model to private venture debt fund managers.
- Finally, EIB's ***asset-backed securities*** instrument was delayed due to a series of State aid issues that resulted in prolonged negotiations between EIB services and the European Commission. Following the completion of the notification process by all EGF-participating EU members, the European Commission adopted a decision approving the EGF asset-backed securities on 16 August 2021. The securitisation product was launched on the market in late September 2021.
- On the EIF side, the flagship EGF products are ***capped and mainly uncapped (counter) guarantees***, which are allocated €1.9 billion (9.1%) and €5.2 billion (25%) of the EGF budget respectively. They aim to improve access to finance for enterprises through partial capital relief and loss protection for portfolios of eligible transactions[37], in a context where financial intermediaries face constraints in providing funding to businesses operating in a highly uncertain economic environment. They complement the EIB's EGF linked risk-sharing products, as they focus on improving access to finance particularly for SMEs and small mid-caps. Under the uncapped (counter-) guarantee instrument, intermediaries benefit from a remunerated guarantee provided by the EIF, on a transaction-by-transaction basis, covering defaults for eligible transactions at a guarantee rate of up to 70%. Under the capped (counter-) guarantee instrument, the remunerated guarantee is provided up to a maximum rate of 30% for a given portfolio. Under the uncapped guarantees, intermediaries therefore have access to full capital relief and loss protection for the guaranteed portion of new eligible transactions or the refinancing of existing eligible transactions. Under the capped guarantees, they receive partial capital relief.
- The EIF also deploys a number of ***equity and debt fund products*** intended for private equity/venture capital funds that may have been impacted by the crisis and that make long-term risk capital investments, for instance in the form of (quasi) equity. The objective of these products is to ensure financial stability and the availability of capital resources for investee SMEs and mid-caps, particularly in their early-stage or growth phases, in challenging market conditions. More specifically, the ***target fund size facility*** aims to support intermediaries in achieving first closing in their fundraising activities. It also aims to

[36] In that sense, under the EGF there is a division of labour for intermediated products between the EIB and the EIF: the EIB focuses on mid-caps or large corporates, and the EIF on small and medium enterprises.

[37] Eligible financial intermediaries can be of any type, including but not limited to: commercial banks, national promotional banks and institutions, microfinance institutions, alternative lenders and others. Eligible transactions cover a wide range of financing products (including refinancing of existing debts) for investment and/or working capital/liquidity needs (such as investment loans, leasing, revolving credit lines, bridge facilities and others).

help intermediaries in their subscription period to complete subsequent closings and reach their target, or at least an adequate fund size if investor interest is limited as a result of the COVID-19 crisis. The ***replacing defaulting Limited Partners facility*** aims to address the rising risk of private equity/venture capital investors not honouring capital calls because of increasing liquidity constraints. Under this facility, the EIF may replace defaulting or likely-to-default investors to ensure that intermediaries can continue implementing their investment strategy and providing support to companies in their portfolio. Such support is also expected to provide a positive signalling effect to market participants. Moreover, the ***existing funds top-up facility*** aims to primarily, but not exclusively, support financial intermediaries in the EIF's portfolio which have limited or insufficient remaining undrawn capital to complete follow-on investments. Beyond the objective of ensuring investee companies have access to sufficient capital resources, the EIF's ***turnaround and special situation funds*** product aims to support funds that focus on helping distressed final recipients by providing capital injections and operational restructuring, thereby averting bankruptcy, preserving jobs and facilitating conditions for growth. Finally, with its two products for ***selective loan funds*** and ***senior private credit funds***, the EIF aims to contribute to the availability of alternative debt financing to final beneficiaries, in response to the crisis following the COVID-19 pandemic.

52. **The EGF was formally established significantly faster than other EIB Group mandates.** It is worth taking note of the EIB Group services' extraordinary efforts to originate, present and get the mandate approved not only in a very short period of time, but also in a very challenging operational context. As most EU members went into lockdown in mid-March 2020, EIB Group services presented the concept for the EGF to EU members on 23 March 2020. The EIB President called on EU members to set up a significant and scalable additional guarantee for the EIB and national promotional banks to ensure that access to finance for small and medium enterprises and mid-caps would remain open. Available economic forecasts at the time pointed to the likely severe negative impact on the EU economy, particularly in the event of a more protracted shock, underscoring the need for an aggressive response at EU level through a combination of fiscal, monetary and investment levers. With the additional guarantee from Member States, the EIB Group's COVID-19 response was expected to support financing of up to 1.5% of Europe's GDP. The first concrete proposal for the EGF was presented to the EIB Board on 3 April 2020. From then on, EIB Group services revised their proposals after several board readings. In parallel, the EGF was also endorsed by the European Council on 23 April 2020 as part of the overall EU package in response to the COVID-19 pandemic. The EGF was formally approved by the EIB Board on 26 May 2020, after which signatures of bilateral contribution agreements with EU members could commence.

Delays in the deployment of the EGF

53. **Despite its quick formal establishment, the EGF's operational launch was delayed by six months**. In its conclusions of 23 April 2020 the European Council called for the EU comprehensive economic policy response to the COVID-19 pandemic, which includes the EGF, to be operational by 1 June 2020.[38] However EGF signatures could only commence on 14 December 2020, due to the time needed for all EGF contributors to address their State aid notifications to the European Commission, and in the case of asset-backed securities, due to the adjustments to the product required under EU State aid law.

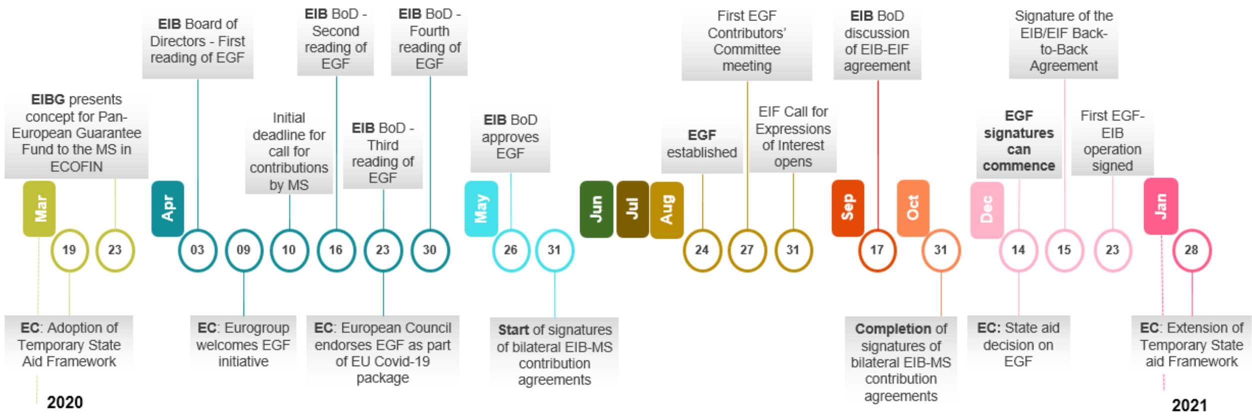
54. **This delay was partially due to the time needed to reach consensus amongst contributors on key EGF design aspects, and to the need to obtain EU State aid clearance.** First, there were delays in obtaining commitments from participating EU members on their financial contribution[39], due in particular to the time needed to reach consensus on the maximum net expected loss of the EGF portfolio. Moreover, some delays resulted from the decision to finance the EGF through EU members' contributions: while EIB Group products are

[38] Source: Conclusions of the President of the European Council following the video conference of the members of the European Council, 23 April 2020 (available here).

[39] Member States were due to make their commitments by 31 May 2020, but most contribution agreements were signed during the summer period, and the agreements with Bulgaria and Poland were signed as late as October 2020.

usually not subject to EU State aid rules[40], the use of EU members' resources (which are subject to State aid laws) triggered the State aid clearance procedure. This process took several months, due to the time needed for the participating EU members to address their State aid notifications to the European Commission, and in the case of asset-backed securities, due to the adjustments to the product required under EU State aid law. The length of this process hampered the speedy launch of the EGF as an emergency support tool. Although the European Commission approved, under EU State aid rules, the introduction of asset-backed securities on 16 August 2021, no transactions had been approved or signed for this product at the time of preparing this rapid assessment. Asset-backed securities are key to the EGF's performance as they have a substantial multiplier effect and are fully directed to small and medium enterprises.

Figure 10: Timeline of EGF development



Source: IG/EV

55. This delay was only partly compensated by an extension of the allocation period, while at the same time most national schemes were also extended. To address delays in the launch of products and the changing length of the allocation period, EIB Group services worked in parallel on addressing governance requirements, product design, launching open calls for interest (EIF), pipeline development and approval documents. The EGF product mix was also updated continuously in response to changing expectations about the availability period of the products or changes in market demand, demonstrating the agility of the EIB Group in making adjustments where possible to maintain the EGF's relevance. At inception, the end of the investment period of the EGF — the date by which operations could be submitted for approval to the Contributors' Committee and signed — was set at 31 December 2021. For EGF-aided products under the EGF bespoke State aid regime, 31 December 2021 was also the date by which allocations of loans to final beneficiaries were to be completed. This constituted a very short allocation period, much shorter than what is standard for such EIB Group operations. For instance, as signatures of EIB linked risk-sharing operations could only commence from mid-December 2020, the implementation period of such operations under the EGF is 12 months. EIB Group management estimated that this decision would result in a significant reduction (approximately 30%) in the financing made available under the EGF to companies in participating Member States. Subsequently the Contributors Committee approved the extension of the allocation period for EIB linked risk-sharing and EIF (capped and uncapped) guarantee operations under the EGF bespoke State aid regime to 30 June 2022.[41] This extension was approved by the European Commission in November 2021.[42]

Consequences of delays on the EGF's adequacy as a crisis response

56. **Delays have reduced the EGF's attractiveness for intermediaries, as evidenced by early signs of a high pipeline attrition rate.** With delayed signatures and the shifting deadline for

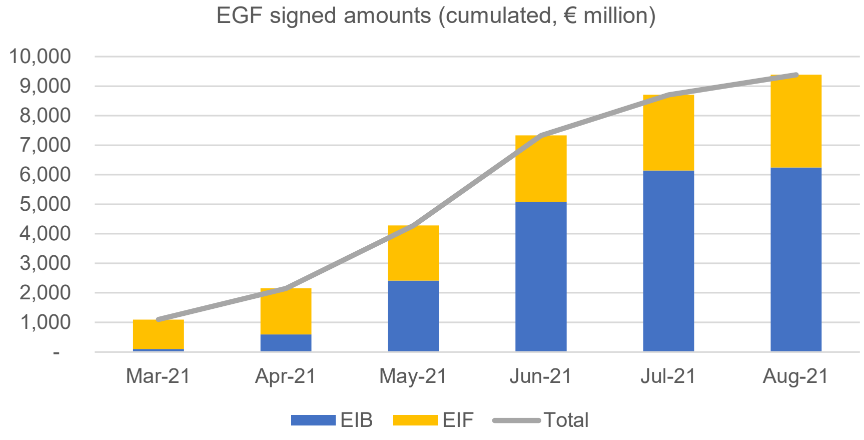
[40] A company that receives government support gains an advantage over its competitors. Therefore the Treaty generally prohibits State aid unless it is justified by reasons of general economic development. To ensure that this prohibition is respected and exemptions are applied equally across the European Union, the European Commission is in charge of ensuring that State aid complies with EU rules. Source: European Commission.

[41] For EIF guarantee operations, loans under the *de minimis* regime may be allocated until 31 December 2022.

[42] N.B. For the EGF asset-backed securities product, launched in autumn 2021, the signature period is until 30 June 2022, and the allocation period could extend to 31 December 2023.

the allocation period, intermediaries have been facing the prospect of having too little time to build up portfolios, particularly granular ones. This situation has diminished the attractiveness of the products for intermediaries. Despite initially strong demand, with EGF products being oversubscribed at the outset, overall signatures have subsequently lagged. By 31 August 2021, with 72% of the time available in the signature window having elapsed (the window ran from 14 December 2020 to 31 December 2021), total amounts signed stood at €9.4 billion, which is 45% of the revised June 2021 target of €20.8 billion. For the same period, the EIB Group had approved €18 billion of the available EGF guarantee, with a total of €143.7 billion in mobilised investments expected.

Figure 11: EGF signed amounts at August 2021(€ million)



Source: IG/EV, based on EIB data

57. **Delays have also partly reduced the EGF's relevance as a countercyclical response to the liquidity crisis**. Its contributors' initial expectations were for an operational launch in June 2020 and for a short timeline for the approval and implementation of EGF operations. However, delays in its operational launch meant that the EGF became active when the liquidity shortage had already been largely addressed. Therefore it didn't fully meet its objective of helping address the urgent liquidity crisis. The EGF is, however, relevant to the objective of ensuring that EU firms have access to financing to continue their growth and development in the medium to long term, primarily by providing financial intermediaries with risk coverage and capital relief, and by helping reduce sector concentration, as well as through its equity and equity-type products for firms with high growth potential.

58. Going forward, the pandemic has left many firms with debt overhang and at risk of insolvency. The needs of EU firms have evolved towards more subordinated debt solutions. Massive liquidity support in the early stages of the COVID-19 crisis has largely contributed to mitigating the contraction in output, as well as employment and income losses. Such support — including from the EIB Group — has typically been broad-based and aimed at preserving the pre-existing productive structure. This action, coupled with strong precautionary saving behaviour and borrowing, has increased firms' liquidity buffers, entailing a reduction in liquidity risks, but also an increase in debt.[43] The pandemic has left many firms with over-indebtedness and under-capitalisation, thus increasing their risk of insolvency and hampering their investments. Going forward, studies note that support in the recovery phase should focus on viable and solvent companies, so that they continue to invest, particularly in their green and digital transformation.

59. **At EU level, there is a significant financing gap for helping firms access more subordinated or non-debt funding**. The Association for Financial Markets in Europe (AFME) estimates that €450-600 billion of non-debt funding is needed in the European Union to prevent widespread business defaults and job losses associated with the COVID-19 crisis.[44] By Q1 2021, only nine EU members had adopted recapitalisation schemes under the State aid

[43] Source: ECB, The role of government for the non-financial corporate sector during the COVID-19 crisis (May 2021). Available here.

[44] AFME: Equity and hybrid markets hold solution to European COVID-19 corporate recapitalisation (19 January 2021).

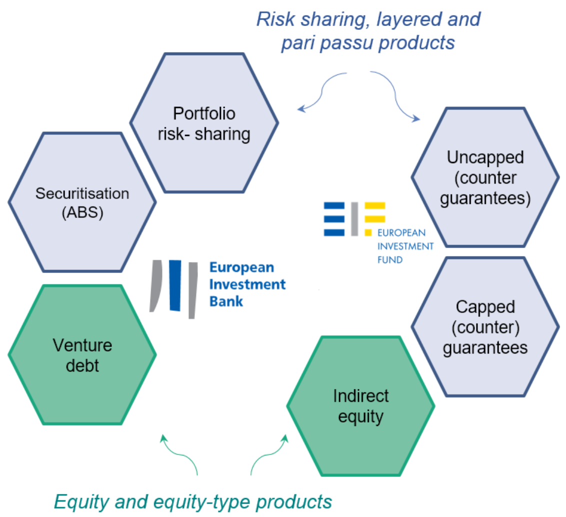
Temporary Framework for a total value of €67 million, representing a small share of the total public support provided. The form taken by such support should also cater for the specific needs of small mid-caps and SMEs, which do not have access to capital markets, and usually do not wish to give up control over their ownership. Hybrid products suitable for the specific needs of smaller firms are already available in several EU members.[45] However studies indicate that their scale is insufficient to cater for the massive subordinated debt and non-debt funding gap at EU level.[46]

60. **The EGF quasi-equity products are relevant for helping firms with high growth potential remain solvent and invest going forward; however the EGF has insufficient built-in flexibility to scale up its efforts on that front.** The EGF equity products (particularly through private equity funds) are aimed at companies with high growth potential, whereas many small firms are currently in need of recapitalisation following a loss of assets, which limits their attractiveness for equity investors. The EGF currently offers quasi-equity products suitable for solvency support, but is constrained in its ability to scale up this type of activity for two main reasons:

- First, its contributors have decided to limit equity or equity-like transactions for small and medium enterprises and mid-caps at 7% of EGF-supported financing.

- Second, the target set for the expected resources mobilised in transactions incentivises the use of other products with a higher multiplier effect on investments. The expected investment mobilised (€200 billion) with a focus on small and medium enterprises (at least 65% of financing) requires the mobilisation of instruments more conducive to the achievement of these targets. Shifting resources between, for instance, a high-leverage instrument like asset-backed securities to a lower-leverage one like most of the equity instruments has a direct consequence on the ability to generate the total investment expected from the EGF.

Figure 12: EGF product palette



Source: IG/EV, based on EGF product mix in June 2021

45 AFME notes that certain EU members have a well-established range of hybrid instruments available, including subordinated debt, profit participation instruments such as the "Genussschein" in Germany and similar instruments in other countries including Austria, France, Sweden and Denmark, as well as convertible bonds and payment-in-kind ("PIK") bonds. Source: AFME, Recapitalising EU businesses post COVID-19, January 2021.

46 Sources: IMF European Department, Solvency support for enterprises: key considerations and preliminary lessons from European programmes (July 2021), available here. ECB, The role of government for the non-financial corporate sector during the COVID-19 crisis (May 2021), available here.

3.2.2 Does the EGF complement the Group’s immediate response and other EU schemes?

Key messages:

- In terms of internal complementarity, the EGF as an impact finance mandate complements the EIB Group’s immediate response as regards risk segments and associated products, volumes and leverage. The products offered by the EIB and EIF were complementary thanks to their differentiated approach, intermediary type, beneficiaries and transaction size.
- External complementarity exists between the EIB Group’s response and other EU schemes especially since the EGF fills the gap between the expiry of EFSI and the upcoming InvestEU.
- The EIB Group’s response was found to have the greatest impact where national measures were limited in size or did not cover all areas. Complementarity with national schemes was built into the EGF’s design, but has up to now been penalised by an overlap with national schemes, many of which have been prolonged. However, most of these schemes are being phased out, which suggests that complementarity with the EGF is set to increase.

Internal complementarity of the EIB Group’s response (immediate and EGF)

61. **By engaging in riskier operations and products, the EGF provides complementarity with the Group’s immediate response that was deployed under its own resources and existing mandates.** The higher risk-taking capacity of the EGF allows the EIB Group to continue and scale up products with higher risk configurations. For example:

    - Linked risk-sharing transactions with full delegation have traditionally been deployed under mandates rather than the EIB’s own resources, due to their inherently higher risk.
    - The EGF also allows its asset-backed securities product to target the most junior risk tranches. The product is in that sense highly complementary to the EIB’s current own-resources offering which usually targets senior tranches, as well as to EFSI’s risk-sharing product which targets the mezzanine tranche.
    - The EIF equity instruments under the EGF have been designed to complement the EIF's existing equity activities. They focus specifically on addressing the market needs arising from the crisis by providing additional support to already established funds in need (top-ups, defaulting Limited Partners replacement), launching new funds more quickly (supporting minimum and target fund size during fundraising), and supporting turnaround and special situation funds.

62. **Complementarity between the immediate and EGF responses is also provided in terms of coverage of needs.** The combined product palette contributed to enhancing the credit capacity of a variety of financial intermediaries for business debt financing (through intermediated lending), and lowering their risk exposure to companies’ portfolios (via risk-sharing products). Complementarity is also evident in the transaction size, with the EIB emergency response support focusing more on larger tickets (average size of approved operations: €158 million), whereas EIF activity was more granular (average size of approved operations: €68 million).

Complementarity of the EIB Group’s response with EU initiatives

63. **The immediate EIB Group’s response was complementary to EU measures launched in the emergency phase — SURE, ReactEU and the ESM Pandemic Crisis Support — by virtue of offering differentiated support to similar target groups**. ReactEU was launched as an immediate response to the COVID-19 situation in 2020 and concentrated on regional resilience support, thereby complementing the emergency EIB support provided to public sector counterparties to enable them to continue their investment projects, as well as to enhance their pandemic preparedness, treatment and other response capacities. Similarly, the Support to mitigate Unemployment Risks in an Emergency (SURE) programme aimed to fund EU members’ short-term employment preservation measures during the crisis, such as

Kurzarbeit.[47] It addressed the need to support companies in maintaining employment and activity, dovetailing with the EIB Group's intermediated lending which addressed their urgent liquidity needs. Finally, the ESM Pandemic Crisis Support complements the concerted European response by offering credit lines for sovereigns, designed as a safety net for those euro area Member States affected by the COVID-19 shock.

64. **Similarly, there is potential for complementarity through continuity of support over time.** Given the delays in launching InvestEU, this initiative might potentially be made available as the EGF is closing. This could be the case, for instance, for the EIB's venture debt product, which will also be offered under InvestEU.

Complementarity of the EIB Group's response with Member State initiatives

65. **The national responses varied in scope and scale.** Most EU members provided extensive public support measures for the economy in response to the COVID-19 pandemic. The general escape clause of the Stability and Growth Pact together with the State aid Temporary Framework[48] allowed EU members to announce unprecedented levels of support, mainly to help businesses and employees withstand the liquidity and income pressures arising from lockdowns, while departing from the budgetary requirements that would normally apply under the European fiscal framework. A total of 588 COVID-related support schemes were introduced by EU members under the State aid Temporary Framework. However, data from the International Monetary Fund[49] indicated that the response of EU members differed in terms of relative scale: as of October 2021, guarantees and quasi-fiscal operations in response to COVID-19 as a share of GDP ranged from 35.1% for Italy to 27.8% for Germany, 14.5% for France, 13.4% for Spain, 5.7% for Portugal and 2.5% for Bulgaria.

66. **Anecdotal evidence suggests that the Group's response was particularly complementary where national measures were limited in size or did not cover all areas.** In some cases, conditions offered by EU members under specific guarantee schemes were more attractive than those offered under the Group's guarantee products (with up to 100% portfolio coverage in some cases), which penalised interest in the Group's products. However, the feedback received from representative associations in the banking sector suggests that the Group's support left a footprint in countries where national measures were limited in size or did not cover all areas.

- In Portugal, state credit lines with mutual guarantees were channelled to the most affected areas during the emergency. Due to the lack of broad and comprehensive support, companies in sectors not considered the most affected suffered constraints in accessing the financing provided through state support, and were therefore penalised in conducting their normal activities and in making new investments. The support provided by the EIB Group was found to help fill the financing gap.
- In Romania, the Group's guarantee instruments in particular were extensively used to support new lending, covering market segments not served under other national programmes (for example in terms of maximum maturity or loan value).
- In Poland, the Group's support was an excellent complement to national aid sources, as it concerned major existing products available across the entire country without any regional limitations.
- The Group's instruments and measures were found to be less useful in countries like Italy and Germany, where national solutions played a central role due to their rapid deployment. It should however be noted that, in Italy, EIF guarantee facilities played a

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47 *Kurzarbeit* refers to a furlough system provided by the German government, in which private sector employees agree to or are forced to accept a reduction in working time and pay, with the state making up for all or part of the lost wages. Several EU members put in place such short-term, support schemes to avoid layoffs or bankruptcies during the COVID-19 health and economic crisis.

48 The European Commission adopted the State aid Temporary Framework on 19 March 2020 to enable Member States to use the full flexibility provided under State aid rules to support their economies in the context of the coronavirus outbreak. The Framework was adopted on the basis of Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU), which allows aid to be granted "to remedy a serious disturbance in the economy of a Member State."

49 The IMF compiles a database of the key fiscal measures governments have announced or taken in selected economies in response to the COVID-19 pandemic as of 5 June 2021. Available here.

role as a counter guarantee to the National Guarantor, and under COSME the EIF has agreements with some of the major implementing entities of the Italian guarantee scheme.

67. **Complementarity with national schemes was built into the EGF's design, but has up to now been penalised by an overlap with the prolonged national schemes.** From the outset, the EGF was expected to be complementary and additional to national programmes in order to optimise impact in each country. A detailed example of complementarity between the national scheme in Poland and the EGF is provided in Box 1 below. In practice, these national initiatives were deployed on the ground quicker than the EGF, which was expected to be rolled out when the national initiatives would be phased out (by end-2020). Instead, most of the national programmes were extended to the beginning of 2021, which has partly filled the market gap targeted by the EGF.

Box 1: Example of complementarity between the EGF and national measures — Polish Anti-Crisis Shield Guarantee — Fundusz Gwarancji Płynnościowych (Liquidity Guarantee Fund)

Description of the public scheme

The Polish Development Bank (Bank Gospodarstwa Krajowego, "BGK") is responsible for administering the Polish national scheme which has a budget of PLN 22 billion (approximately €4.8 billion) and which will allow the BGK to issue guarantees of up to PLN 100 billion (approximately €22 billion). The guarantee amount can be used to cover total loans of up to PLN 125 billion (approximately €27 billion).

Areas of complementarity between EGF support and Poland's national response

- Timing: The guarantee support under the FGP (Poland's liquidity guarantee fund) will only be available until the end of 2021. The EGF guarantee products will also be able to deliver continuous support to medium-sized enterprises and mid-caps after this date.
- Target groups: The FGP is not available for small enterprises, which (if they are not innovative) can only receive support within the *de minimis* BGK guarantee. If the *de minimis* ceiling has already been already reached, small enterprises can benefit from an EGF guarantee.
- Risk: EGF guarantees take on higher risk in comparison to the FGP as they do not explicitly demand collateral, while the FGP requires a blank bill of exchange for each transaction.
- Volume: The amounts of aid distributed via the EGF remain limited in comparison to the FGP, as so far (at 31 August 2021), the EGF has supported in Poland, through the EIF, seven guarantee transactions amounting to €225.7 million (with the BGK, commercial banks and leasing companies as counterparties) and two investments funds transactions amounting to €22.3 million (within the Senior Private Credit and Target Fund Size EGF facilities); and through the EIB, one venture debt transaction amounting to €3 million in a Polish robotics company.

Source: IG/EV, based on EIB documentation

68. **Most state-level support is being phased out, which suggests that complementarity with the EGF is set to increase**. By mid-2021, the resources available under the state support programme had largely been used, and the amounts of new state-level support approved in 2021 represent approximately 10% of what they were in 2020. Moreover, the Temporary Framework under which EU members provided public support is set to expire at the end of 2021, leaving fewer options for EU members to support companies in the recovery stage, unless the European Commission decides to extend the Temporary Framework beyond the end of 2021. In parallel, investment needs are expected to rise as economic activity recovers. Consequently, for the remainder of its implementation period, the EGF is currently set to provide continuity to national initiatives.

4. Early results of EIB Group response to the COVID-19 crisis

69. The previous chapter analyses whether the design of the response offered by the Group is suited to the EU economy's needs as it contends with the COVID-19 crisis. This chapter presents the extent to which the response has actually delivered, principally in terms of providing liquidity to those that needed help, on the right scale and at the right speed. A particular focus is placed on the effect of the exceptional enabling measures deployed by the Bank and the EIF: have they made a difference to the counterparties supported in comparison to normal procedures? The second part of the chapter discusses if and how the EGF is on track to demonstrate its results vis-à-vis its contributors, or whether its monitoring framework needs to be enhanced.

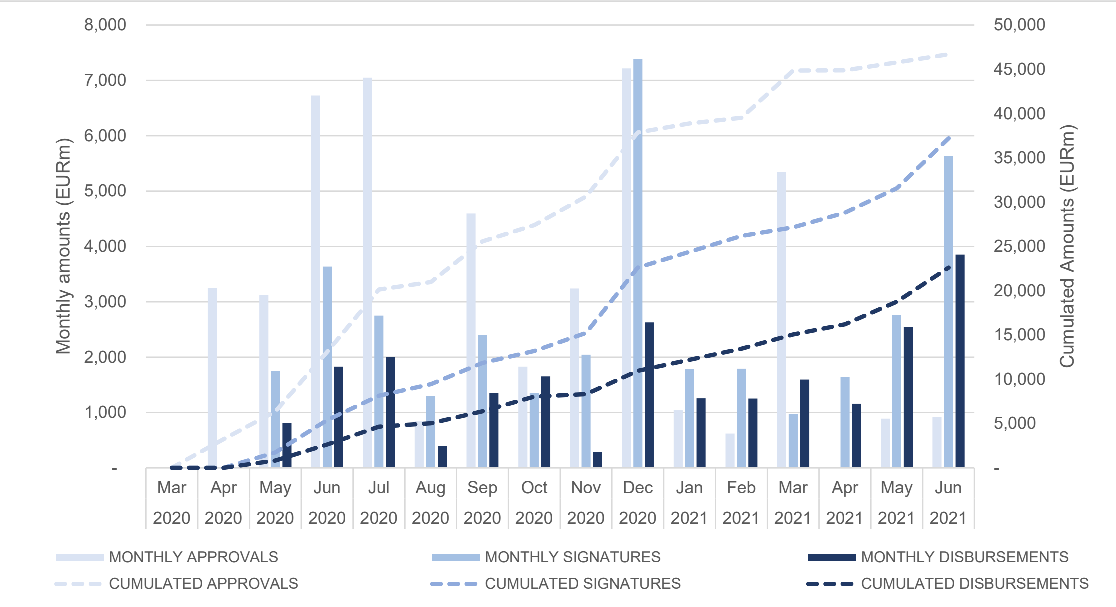
4.1 Has the emergency response reached the counterparties that needed support?

Key messages:

- COVID-19 support was directed to the sectors and counterparties expected to be prioritised, either by means of financing, or by waivers and deferrals.
- The geographical distribution of signed COVID-19 operations deviated from "traditional" EIB lending patterns and shifted towards the most affected countries, albeit with exceptions.
- Overall, disbursement rates are higher than for comparable non-COVID-19 operations over the same period.
- But the pace of signatures and disbursements is constrained by market conditions (low market rates eroding the EIB's competitiveness) and by the deployment of other EU or national support schemes. These constraints apply to the entire EIB business and are not specific to its COVID-19 operations.

4.1.1 Is the delivery of financing to the economy on track?

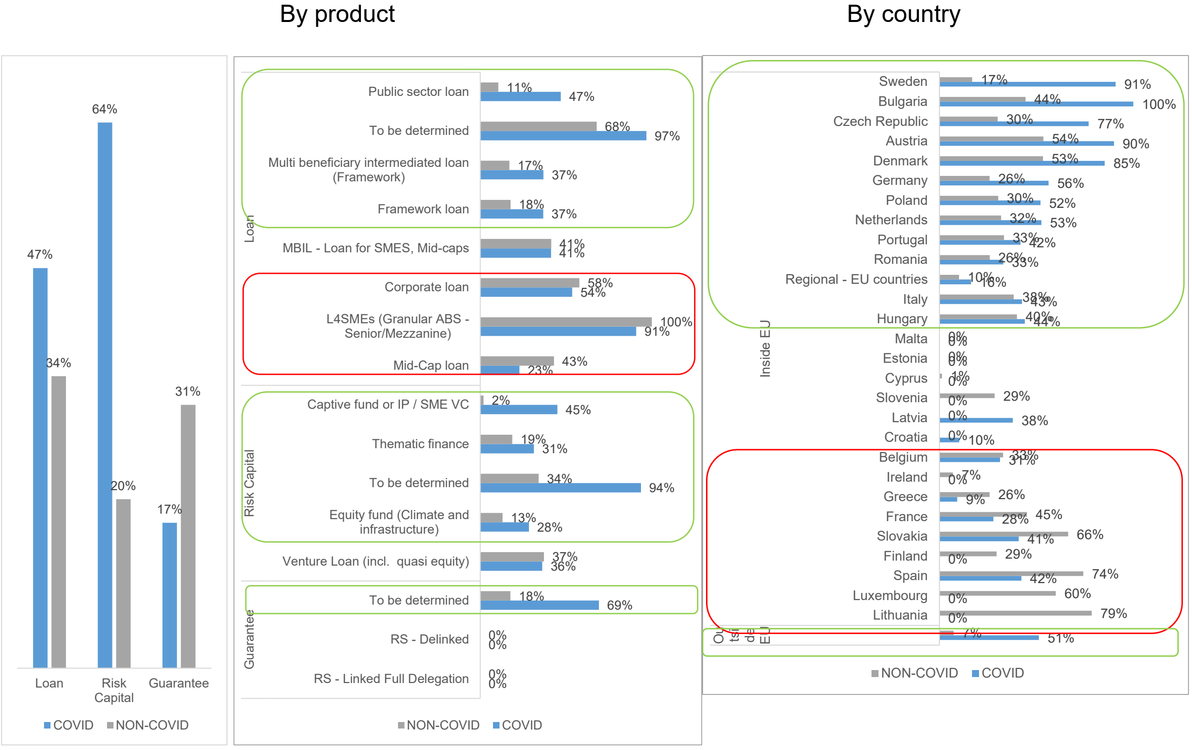
Figure 13: Monthly evolution of the EIB COVID-19 portfolio



Source: IG/EV based on EIB data
Bars = monthly amounts, left hand axis.
Lines = cumulated amounts, right hand axis.

70. **The mobilisation[50] of flagship COVID-19 initiatives exceeded 90% at end-June 2021.** The data at end-June 2021 were the latest available at the time of writing this report. Overall (i.e. including the EGF), EIB COVID-19 amounts stood at €46.7 billion approved, €37.2 billion signed (80% of approvals) and €22.6 billion disbursed (48% of signatures). The flow of approved amounts was consistently higher than the signed amounts (as the pipeline was being built) until December 2020, when signatures caught up (possibly also reflecting end-of-year signature bundling). Though the emergency response did not include headline volume targets (unlike mandates such as EFSI or the EGF), three flagship initiatives had dedicated envelopes that can be seen both as ceilings and as soft targets: the €5.0 billion top-up facility for existing COVID-19 operations, and the COVID-19 programme loans for multi-beneficiary intermediated loans and asset-backed securities, with budgets of €5.0 billion and €2.0 billion respectively. By end-June 2021, the conversion of these flagship initiatives into sub-operation approvals exceeded 90%.[51] It is worth noting that 2020 was the second consecutive year in which total EIB signed amounts continued to increase, reversing the trend of declining total signed amounts since 2015.

Figure 14: Disbursements as percentage of signatures, for operations signed during the period Q1 2020 to mid-2021



Source: IG/EV based on EIB data

71. **The delivery of the EIB crisis response to the real economy has been progressing at a faster pace than non-COVID-19 EIB operations in the same period. For comparable products, disbursement rates for COVID-19 operations are higher overall than for non-COVID-19 operations signed in the same period.[52]** The portfolio analysis indicates that this trend is not driven by specific products, as disbursement rates are higher for COVID-19 operations across a range of products, albeit with a few exceptions (mid-cap loans, corporate loans and granular senior/mezzanine asset-backed securities). The most significant product

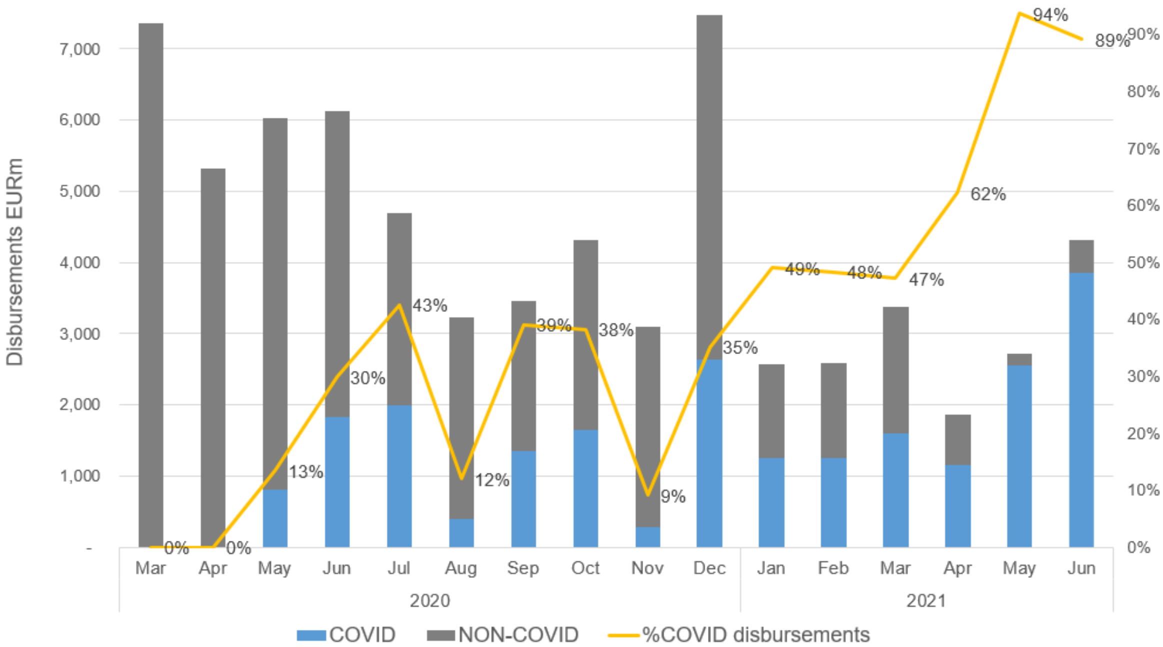
[50] Mobilisation: conversion of the overall amount approved for flagship initiatives into the approval of sub-operations.

[51] By 30 June 2021, 92% of the €5.0 billion top-up facility had been approved; sub-operations approved under the COVID-19 programme loan for multi-beneficiary intermediated loans had used up 95% of the budget, while those for asset-backed securities had used 92% of the budget. Their multiplier at mid-2021, measured at sub-operation as the share of project investment cost/approved financing, was x1.89 for the programme loan for multi-beneficiary intermediated loans (above the x1.4 expected at operation level) and x6.81 for the programme loan for asset-backed securities (below the x7 expected at programme loan level).

[52] To avoid a potential bias due to different market conditions, we compare the rate of disbursement of COVID-19 operations (existing operations that were topped-up or benefited from enabling measures or new operations) to non-COVID-19 operations signed in the same period under consideration.

mobilised as part of the EIB's crisis response in terms of signed volumes and relative share in the portfolio are multi-beneficiary intermediated loans (MBILs) for small and medium enterprises and mid-caps. Their disbursement rates for COVID-19 and non-COVID-19 operations are the same (41%) as illustrated in Figure 14. This similarity contrasts with most other products and is part of a wider issue with declining EIB competitiveness for this specific type of loan. Interviews with EIB services pointed to high disbursement rates in the early stages of the crisis, and specifically Q2 and Q3 2020, when demand for liquidity from small and medium enterprises and therefore from intermediaries was strong. Since then, disbursement rates have slowed down, with the exception of the month of December 2020, when disbursements reached their highest level, and more recently in May and June 2021. In Q2 2021, COVID-19 operations represented the vast majority of EIB disbursements (Figure 15), notably thanks to operations under EGF, which represented 65% of all COVID-19 disbursements in the same quarter. In terms of geography, significant disparities can be seen among EU members. The rate of disbursement of COVID-19 operations compared to non-COVID-19 operations is higher in Italy (which is also the top beneficiary in terms of volume) and Poland (fourth beneficiary), but is lower for Spain and France (second and third beneficiaries respectively).

Figure 15: Monthly evolution of the EIB COVID-19 and non-COVID-19 disbursements and respective share of COVID-19 of total EIB disbursements



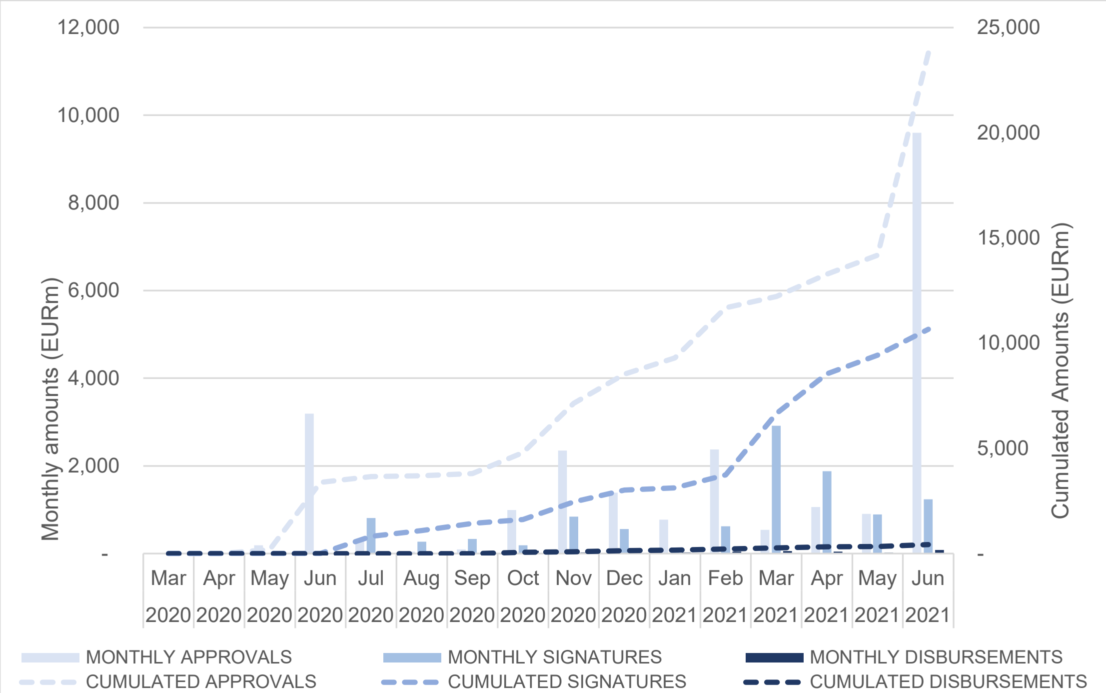
Source: IG/EV based on EIB data
Bars = COVID and non-COVID disbursements
Line = share (%) of COVID-19 on total EIB disbursements.

72. **Despite higher disbursement rates, the delivery of EIB support to the real economy has been constrained by the persistently low and negative interest rates, as well as competition with other EU or national support schemes, and clients' precautionary approaches.** Evidence from interviews with EIB services and client representatives indicates that the prevailing market conditions, especially low interest rates, may ultimately deter clients from drawing on available funds. This trend was common to the entire EIB portfolio and was not specific to its COVID-19 operations. This situation is further compounded by the abundant support provided under EU-level or national programmes. For instance, the European Central Bank's financing operations have provided abundant liquidity to the euro area's banking system on very favourable terms, and available resources under the European Structural and Investment Funds have already been repurposed for the immediate crisis response, complemented by new initiatives such as the Recovery and Resilience Facility. It is worth noting that counterparties, particularly in the public sector, would rationally prioritise the use of grants over the use of loans that have to be repaid. For intermediated products, interviews with representative organisations of the banking sector indicate that declining price competitiveness is exacerbated by stricter EIB requirements in product design and terms (such as eligibility

criteria). Finally, anecdotal evidence suggests that in some cases, clients have followed a precautionary approach, preferring to sign operations with the EIB as a contingency buffer, while ultimately not drawing down the financing made available to them by the Bank.

73. **Even more than for EIB initiatives, the emergency response budget available under the EIF's flagship initiatives had largely been mobilised before the end of 2020.** The enhanced budget made available for the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility had been absorbed by November 2020 (calls for expressions of interest had been largely oversubscribed). Overall (i.e. including the EGF), at 30 June 2021, COVID-19 approved and signed amounts stood respectively at €23.8 billion and €10.7 billion (45% of approved amounts).[53] EIF approvals exceeded signatures in June and November 2020 and February 2021 (coinciding with the approval of enhanced COVID-19 budgets for the flagship guarantee mandates, and EGF product global authorisations). Signatures exceeded approvals from July to September 2020, and peaked again in March and April 2021, reflecting the ramp-up of EGF operations from the beginning of 2021.

Figure 16: Monthly evolution of the EIF COVID-19 portfolio



Source: IG/EV based on EIF data
Bars = monthly amounts, left hand axis.
Lines = cumulated amounts, right hand axis.

4.1.2 Has the Group served priority sectors and counterparties?

74. **COVID-19 support was directed to priority sectors and counterparties either by means of financing, or waivers and deferrals.** A lesson from academic research and past evaluations is that emergency responses need to be primarily directed to those businesses that need most help in order to optimise scarce resources.[54] The EIB made a commitment that its intervention, while still being driven by demand, would be directed as a priority to the sectors most affected. These sectors include the health sector, small and medium enterprises and vulnerable sectors. COVID-19 support was directed to priority sectors and counterparties in forms that addressed their specific needs arising from the crisis: on the one hand liquidity or

[53] As of end-June 2021, the disbursed amounts stood at €422 million but this indicator is less relevant as the EIF portfolio is primarily made up of guarantee products which do not entail disbursements. For the subset of equity operations for which there are disbursements (unlike for the majority of the portfolio which consists of guarantees), they represented 29% of equity signed amounts.

[54] World Bank 2020, ECB 2020 and IMF 2020.

financing, and on the other waivers and other measures to allow performing borrowers to overcome the adverse impact of the COVID-19 crisis.

75. **About two-thirds of the EIB COVID-19 signatures were directed to SMEs and mid-caps, in line with their increased need for liquidity as a result of the crisis.** The surge in the pandemic led the EIB to revise upward its public policy goal target for SMEs & mid-caps in Q1 2020 from an initial €15.8 billion to €20.0 billion of expected signatures for that year. (The EIB also reduced the three other policy goals.) Signed volumes under the SMEs & mid-caps goal reached €19.0 billion at year-end 2020 (lower than the revised target for 2020, but €3.0 billion higher than in 2019). The EIF's activity (all of which is dedicated to supporting SMEs) was also enhanced with increased resources in support of small and medium businesses. The reorientation of several initiatives with the European Commission was particularly conducive to increasing the EIB's activity in favour of SMEs.[55]

76. Zooming in on EIB-intermediated lending to SMEs, the distribution of sub-loans allocated so far is overall in line with the most pressing needs for liquidity as a result of the COVID-19 crisis, and with their relative share in the EU economy. The evaluation analysed in depth the allocations of the EIB's COVID-19 intermediated lending to individual SMEs, by sector of economic activity (NACE classification).[56] Two sectors have together received approximately 55% of the allocated loan amounts so far: manufacturing (29% of the allocated amounts) and wholesale and retail trade, including repair of motor vehicles and motorcycles (27%). Manufacturing was one of the sectors negatively affected by severe supply chain disruptions, especially at the onset of the crisis, and was therefore in need of liquidity support — particularly smaller SMEs that tend to be very vulnerable to such disruptions. Other sectors identified as in high need of liquidity, specifically accommodation and food and service activities and transport, are among the second-tier top beneficiary sectors, but with lower shares of support. Arts, entertainment and recreation, one of the sectors hit the most and for longest, accounted for 2%, in line with its share of 2% of value added at EU level.[57] For some sectors (such as manufacturing, construction, and the arts) there is close alignment between their share of value added and employment at EU level, and their share of EIB-backed COVID-19 intermediated support. Others (such as distributive trades — which corresponds to wholesale and retail trade — and accommodation) appear to have received a higher share of allocated loan amounts so far, reflecting a close alignment with their pressing need for liquidity as a result of the crisis.

77. **Although it accounted for a comparatively lower share of emergency support than SMEs, the health sector received a higher share of EIB financing support compared to previous years.** The EIB provided financing for the immediate emergency response and to strengthen health systems in the longer run.

- The EIB experienced a steep increase in signed volumes in the health sector: €3.9 billion in 2020 and €1.9 billion in the first half of 2021, compared to €1.4 billion in 2019 and a yearly average of €1.6 billion between 2010 and 2019. Support during the acute phase of the health crisis was needed to ensure that the beleaguered public healthcare and civil protection systems could respond to increased needs.
- Support was provided by increasing the volumes of financing (through the higher share of EIB financing and top-up measures described above) and aligning the types of expenditure eligible for EIB financing with the financing needs created by the pandemic[58]. Unlike the operational enabling measures for other sectors, which could no longer be applied to operations approved after end-March 2021, the exceptional measures

55 Including the transfer of guarantee resources from the EFSI Infrastructure and Innovation Window (IIW) towards the EFSI SME Window (SMEW), the approval of a dedicated €2 billion programme loan for asset-backed securities purchasing programmes mobilised notably under the EFSI Hybrid Window, and the improved terms and conditions and additional budgetary capacity for SME Window products (implemented by the EIF under the COSME Loan Guarantee facility and the InnovFin SMEG).

56 The reference date for the analysis of allocations of the EIB's COVID-19 intermediated lending to individual SMEs was at end-June 2021.

57 Source: Eurostat Culture statistics - cultural enterprises - Statistics Explained (europa.eu).

58 In healthcare, the emphasis at the beginning of the emergency response was on pandemic preparedness, prevention and containing the epidemic. Initially, eligibility was expanded to include financing support for increasing intensive care unit capacity, lab capacity for testing, IT and other equipment and software for logistics, stockpiling, transport, surveillance etc. Eligible expenditure was further widened to include vaccines and vaccination campaigns.

applicable to the public health sector were extended until end-March 2022. In the medium to long term, support will continue to be needed, not only to close the existing financing gap, but also in a context where public finances will have significantly deteriorated.

- Beyond the emergency response, it is worth noting the support that the EIB has provided support to research and development in the health and life sciences over time. Thanks to a number of existing initiatives (the Infectious Diseases Finance Facility and European Growth Finance Facility under EFSI, established in 2015 and 2016 respectively), the EIB has provided support to early/growth-stage and highly innovative companies in the life sciences. A number of facilities and products under InnovFin were instrumental in financing health solutions directly addressing the COVID-19 health crisis. They include the Infectious Diseases Finance Facility[59], which allowed the EIB to increase the volume of financing and amend its financing terms to support biosciences and other areas needed, and the InnovFin Corporate Research Equity, which provided equity-type support for BioNTech. Investments and support continue to be needed for ongoing emergency measures (vaccination campaigns), enhanced health systems, preparedness for the next pandemic, and anti-microbial resistance.

4.1.3 Has the geographical distribution of support been fair and balanced?

78. **The EIB Board expected a fair and balanced geographical distribution of the Bank's emergency response, but the criteria for what this distribution would look like were not explicitly defined.** Unlike for the EGF or previous mandates such as EFSI, no geographic concentration limits were defined for the emergency response or for the flagship COVID-19 operations (top-ups and flagship programme loans). In the absence of explicit guidelines, the analysis presented here follows a two-pronged approach. First it compares the distribution of the EIB COVID-19 response (in terms of signed financing amounts) to the traditional distribution patterns of EIB signatures observed in the past five years, which already take into account standard factors such as size of the economy, absorption capacity, etc. Second, it compares the geographical distribution of COVID-19 operations with the GDP loss caused by the COVID-19 crisis[60], to confirm if absorption was driven by the GDP loss or by other factors such as fiscal capacity or design features.

79. **The geographical distribution of signed COVID-19 operations deviated from "traditional" EIB lending patterns and shifted towards the most affected countries, albeit with exceptions.** By contrast, the design of the €750 billion Next Generation EU programme was criticised for being based less on the balance of direct pandemic damage to EU members than on traditional distribution keys according to their economic performance.[61] EIB COVID-19 signed amounts were heavily concentrated on two large Member States. Italy and Spain (both significantly hit by the crisis) accounted for 50% of the signed amounts at mid-2021, while a number of smaller EU members appear to not have benefited as much. Italy and Spain also have the highest maximum grant allocations under the Recovery and Resilience Facility. Both have been traditionally in the top beneficiaries of EIB financing overall in the last five years, also as a result of the significant size of their economies. At the same time, they both had a much higher share of the EIB COVID-19 portfolio (25%) compared to their traditional shares of EIB lending (14%). In contrast, other EU members with traditionally large shares of EIB financing such as France, Germany and Poland had lower shares of the EIB COVID-19 portfolio, which is probably explained by the availability of large national response schemes. Malta, Slovenia and Cyprus were severely hit by the crisis, but received a smaller portion of the COVID-19 envelope compared to their traditional share in the EIB business activity, or no portion at all. The top EU members with the highest increases in their share of the COVID-19 portfolio in

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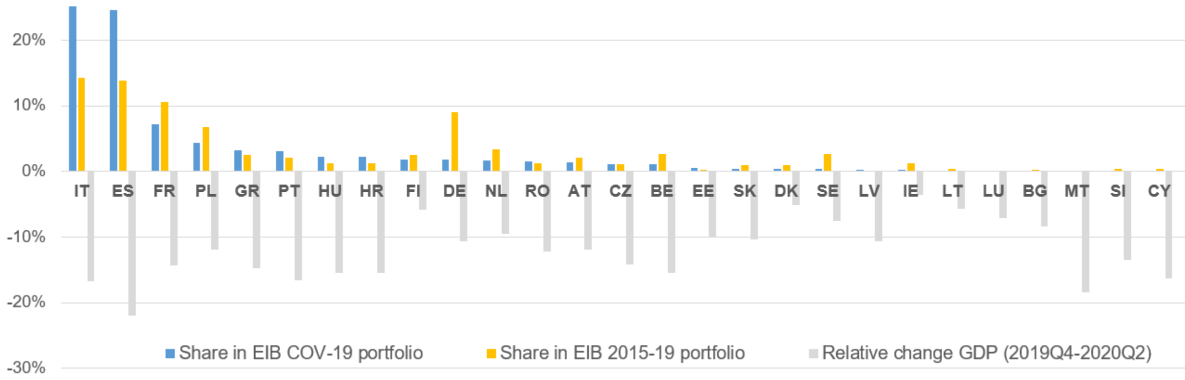
[59] The InnovFin Infectious Diseases Finance Facility provides financial products ranging from standard debt to equity-type financing (with amounts typically ranging from €7.5 million to €75 million) to innovative players active in developing innovative vaccines, drugs, medical and diagnostic devices or novel research infrastructure for combating infectious diseases. Project costs may include clinical trial costs, the setup of commercialisation such as market access, development of prototypes or industrial rollout of novel equipment, pre-clinical R&D costs and working capital requirements.

[60] This approach was used in Anderson, J., F. Papadia and N. Véron (2021) "COVID-19 credit-support programmes in Europe's five largest economies," Working Paper 03/2021, Bruegel (Available here).

[61] Opinion from Wilfried Stadler, management consultant, business journalist and honorary professor at the Vienna University of Economics and Business Administration in Die Presse (9 April 2021, available here).

comparison to their traditional shares of EIB lending also experienced some of the largest declines in GDP as a result of the crisis (Italy and Spain as shown in Figure 17).

Figure 17: Distribution of EIB COVID-19 signatures compared to the distribution of EIB signatures in 2015-2019 and countries' relative GDP change during a period of greater economic contraction (Q4 2019 to Q2 2020)



Source: IG/EV based on data from EIB and Eurostat

4.2 Did the enabling measures make a difference in providing significant, rapid and suitable support to counterparties?

Objectives of EIB and EIF enabling measures

80. **As part of the "Overall operational response to COVID-19" endorsed by the EIB Board of Directors on 3 April 2020, the Bank introduced a set of (temporary) enabling measures for its COVID-19 operations.** Each measure was expected to contribute to one or more of the following categories:

- Pillar 1 measures seek to accelerate the signature and disbursement of operations already approved.
- Pillar 2 measures increase the EIB financing amount so that it can be above 50% of the project investment cost, both for existing operations through top-ups, and also for new operations.
- Pillar 3 measures broaden the categories of expenditure eligible for EIB financing to include specific COVID-19-related measures for priority interventions supporting: (i) small and medium enterprises and mid-caps; and (ii) health and civil protection. Pillar 3 measures can be combined with Pillar 1 and Pillar 2 measures to enhance their effectiveness.

81. In Annex 3, IG/EV reconstructed the logic behind the EIB's set of enabling measures to define their performance metrics. All these measures were intended to address the specific needs faced by borrowers as a result of the crisis. In the case of project financing, the intention was to help promoters ensure that project implementation would occur without delays or cutbacks, and help them cope with short-term liquidity pressure and unexpected costs linked to the crisis, so that the project's viability was not put at risk. In the case of intermediated lending, the intention was to incentivise financial intermediaries to provide a form of financing that would meet the specific needs of eligible companies hit, or at risk of being hit, by the economic impact of the pandemic. The ultimate goals were to preserve the business continuity and credit history of final recipients, and the financial stability of the banking sector.

82. **To the same end, the EIF and its mandator — the European Commission — introduced a set of specific measures aimed at facilitating access to finance for companies affected by the COVID-19 crisis** under the COSME Loan Guarantee Facility (for small and medium enterprises) and the InnovFin SME Guarantee Facility (for innovative small and medium enterprises and mid-caps). IG/EV reconstructed the logic behind these measures in Annex 3. In the case of the EIF, each individual measure was expected to provide a specific incentive to financial intermediaries, hence a more granular set of effects.

Usage of EIB enabling measures

83. **From the inception of the COVID-19 crisis response until mid-2021, EIB operational enabling measures were utilised by 306 operations (155 considered as new business and 151 as existing business), mainly in support of small and medium enterprises and mid-caps.** Note that operations may benefit from multiple measures. Of the 151 existing operations that benefited from measures, 77 operations received financing top-ups of €5.5 billion, of which:

- 72 operations under the €5.0 billion delegated envelope;
- Five operations outside the above-mentioned envelope, which therefore received Board approval.

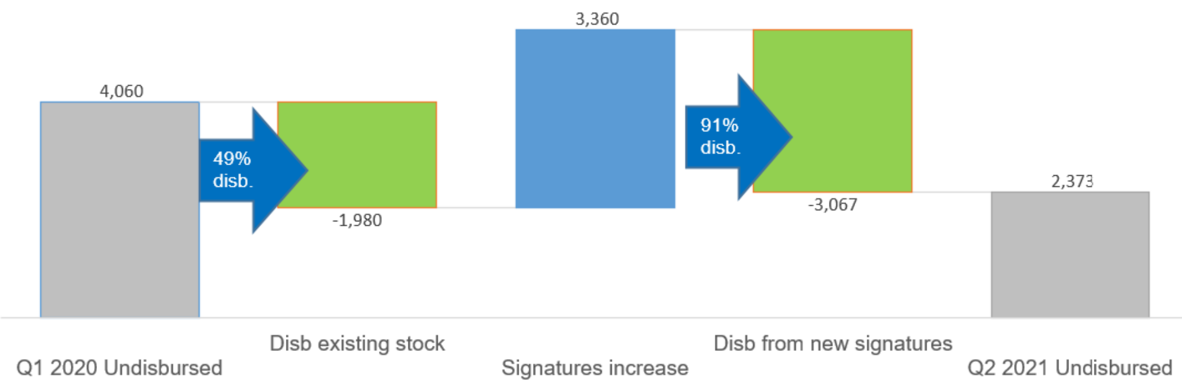
4.2.1 Did the enabling measures help increase the volume and speed of support provided to the economy?

Effect on unlocking EIB's undisbursed exposure[62]

84. **At end-Q2 2021, the stock of EIB's undisbursed exposure had dropped to €2.3 billion (-42% of the stock in Q1 2020) as the result of disbursements on the pre-existing stock and increased signatures.** At end-Q1 2020, the stock of undisbursed exposure of the existing COVID-19 operations was €4 060 million. At end-Q2 2021:

- 49% of this stock had been disbursed;
- 91% of the increased COVID-19 signatures (€3 067 million) had been disbursed;
- A remaining € 2 373 million is left to be disbursed.

Figure 18: Evolution of undisbursed exposure from COVID-19 operations (€ million) (Q1 2020 to Q2)



Source: IG/EV based on EIB data

85. **However, it is difficult to attribute this reduction either to market conditions or to incentives provided by EIB enabling measures.** Enabling measures can only incentivise clients to mobilise disbursements if the conditions offered by the EIB are more competitive than the alternatives. As already indicated in Section 4.1.1, evidence from interviews with EIB services and client representatives indicates that the prevailing market conditions, especially low interest rates.

Effect on quickly and fully originating sub-loans

62 Undisbursed exposure: amount committed (either approved by the EIB Board or already signed with its client) that has not yet been disbursed.

86. **The extra effort agreed with its mandator allowed the EIF to deploy measures highly conducive to a rapid and full origination[63] of the eligible portfolio covered by the guarantees.** IG/EV surveyed the EIF clients having benefited from COVID-19 measures with the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility, as well as the EIB clients having mobilised intermediated lending (multi-beneficiary intermediated loans, guarantees, and asset-backed securities) labelled as COVID-19. Clients were asked whether the measures aiming to support a quick and full origination of the eligible sub-loan portfolio actually helped in reaching these objectives. Figure 19 illustrates how beneficial the measures were, from the viewpoint of the financial intermediaries surveyed. Intermediaries found in particular the increased maximum guarantee cap rate under COSME LGF to be very conducive to originating the eligible sub-loan portfolio.

87. **The EIB mainly deployed measures intended to relax constraints for building intermediated lending portfolios or to reduce the administrative burden for intermediaries. The relaxed constraints had a more positive effect on helping intermediaries accelerate or fully originate their sub-loan portfolio than the lighter administrative burden.** The measures set out by the EIB under its intermediated lending consisted mainly in reducing administrative or financial requirements. Under its existing constraints (see section 3.1.1), the EIB could not deploy measures that would imply additional risk-taking capacity under its own resources and/or entail significant capital consumption. This set of measures was perceived by EIB clients as having a positive effect on their ability to originate the eligible sub-loan portfolio. The extension of eligibility to working capital finance was also reported by two-thirds of the financial intermediaries surveyed to have increased the volume provided.

88. **Both for the EIB and the EIF, the extension of the availability period for building the eligible sub-loan portfolio was optimal:** it helped intermediaries fully originate their portfolio without weighing on the EIB's or EIF's risk-taking capacity.

Figure 19: Effect of enabling measures aiming to help intermediaries quickly and fully originate the eligible sub-loan portfolio

	Enabling measures	EIF guarantees	EIB ABS, guarantees and MBILs
Originate rapid and/or full the portfolio of eligible transactions	Increased maximum (counter) guarantee cap rate	**COSME**	
	Availability period or deadline for building portfolio extended	**COSME**	
	Additionality requirement on best effort basis		
	Lift of 30% Midcap requirement		
	Full upfront disbursement (only MBILs)		
	Simplified (aggregate) portfolio reporting		
	Innovation eligibility criteria to be verified through final beneficiaries' self-declaration	**InnovFin**	

% respondents that reported positive effects
>75%
60-75%
45-60%
30-45%
<30%

Source: IG/EV survey: 89 respondents, 47% response rate (89/189)

[63] The guarantees cover newly originated transactions between the financial intermediary and final recipients. "Origination" refers to the process of progressively including eligible loans to final recipients in the guaranteed portfolio.

4.2.2 Did the enabling measures enhance the conditions offered to counterparties?

Effect on improving conditions for companies

89. **Amendments to COSME and InnovFin allowed the EIF to significantly enhance its response to companies' needs resulting from the crisis.** COSME LGF and InnovFin SMEG deployed a set of very complementary measures, all geared towards helping clients affected by COVID-19 in ways going beyond just working capital finance (see also the intervention logic behind these measures in Annex 3). In a context of supplementary risk-taking allowed by the mandator, the enabling measures produced the strongest positive effects under COSME, and to a lesser extent under InnovFin:

    - The expansion to cover amendments to repayment terms under COSME was found by the intermediaries surveyed to produce a particularly strong positive effect. It incentivised intermediaries to grant more postponements of debt obligations, rescheduling of payment dates or credit holidays, as these were better covered by the guarantees. It also helped intermediaries improve the conditions offered to clients for such amendments (collateral requirements, risk-related margins and fees). These measures were also applied under InnovFin, but the nature of the portfolio (innovative small and medium enterprises and mid-caps) may explain why demand and appetite of final recipients were lower for this type of condition.
    - By the same token, the increased guarantee rate significantly helped intermediaries step up the volume of working capital finance offered.
    - The increased risk coverage for capital payment deferrals had a less significant effect, as it only provided limited incentives for intermediaries to grant more payment deferrals.

90. **Contrary to expectations, the EIB's simplified reporting only made a small difference to intermediaries.** Less than a third of the EIB clients surveyed found that the simplified reporting at portfolio level (aggregated data) helped increase the volume of working capital finance available or the number of sub-loans offered. There may have been other benefits for intermediaries (possibly a lower administrative burden), but these had no influence or relevance regarding how their clients' needs were addressed. On the other hand, two-thirds of the EIB clients surveyed replied that the extension of eligibility to working capital finance increased the volume of working capital provided to final beneficiaries.

Figure 20: Effect of enabling measures aiming to help financial intermediaries improve conditions for final recipients

Likely effect	*Enabling measures*	EIF guarantees	EIB MBILs
Increase the volume of working capital finance to clients	Working capital finance made eligible		
	Simplified (aggregate) portfolio reporting		
	Guarantee rate for working capital increased from 50% to up to 80%	**COSME**	
		InnovFin	
Increase the number of (smaller) loans in the portfolio	Simplified (aggregate) portfolio reporting		
Increase the portfolio risk profile	Guarantee rate for working capital increased from 50% to up to 80%	**COSME**	
		InnovFin	
Improve conditions offered to clients for amendments (collateral requirements, risk related margin, fees)	Guarantee explicitly covers amendments to repayment terms	**COSME**	
		InnovFin	
Grant more postponement, rescheduling or credit holiday	Guarantee explicitly covers amendments to repayment terms	**COSME**	
		InnovFin	
Grant more capital payment deferrals	Coverage of accrued or capitalised interest extended up to 360 days	**COSME**	
		InnovFin	

% respondents that reported positive effects
>75%
60-75%
45-60%
30-45%
<30%

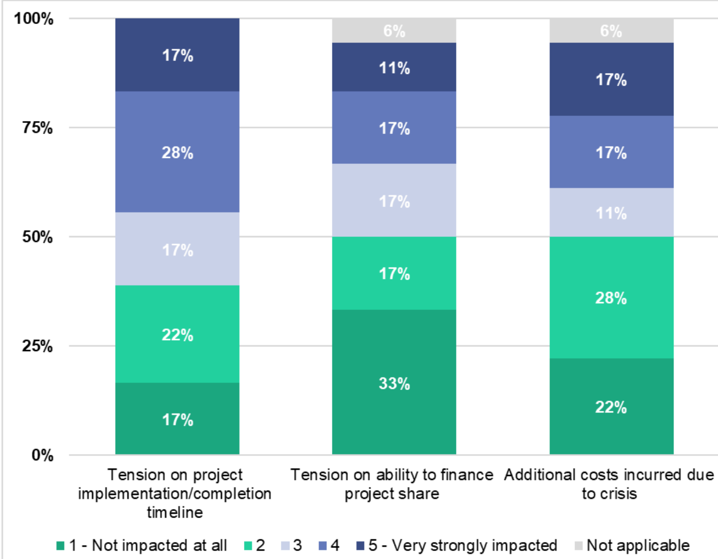
Source: IG/EV survey: 80 respondents, 48% response rate (80/167)

91. **The intermediaries surveyed also suggested that other measures could have been agreed by the mandator**, including:

- Increasing the size of eligible loans (above €150 000), so that small mid-caps in particular could also be served;
- Offering a special grace period under COSME LGF and InnovFin SMEG, as provided under national schemes;
- Extending eligibility to other types of financing (such as asset financing).

Effect on project continuation

Figure 21: How the COVID-19 crisis affected the project implementation of corporate and public sector counterparties that benefited from operational enabling measures



Source: IG/EV survey: 18 respondents, 45% response rate (18/40)

92. **The COVID-19 crisis adversely affected the pace of project implementation for approximately half of the COVID-19 counterparties surveyed.** 45% of corporate and public sector counterparties that benefited from operational enabling measures reported very or somewhat strong negative pressure on their project implementation/completion timelines. In response, the EIB granted these promoters extensions for project calendar deadlines. A lower (but still substantial) share of counterparties incurred significant additional costs due to the crisis (34%). On the other hand, the COVID-19 crisis had relatively limited negative effects on counterparties' ability to finance their project share (28% were strongly or somewhat affected).

93. **The review of internal documents for operations that received top-ups indicates that in line with the analysis of sectors affected the most by the COVID-19 crisis, manufacturing and transport were the sectors to most frequently benefit (see Table 2).** The main justifications for the use of top-ups in manufacturing were the need to continue/complete investments and the sector-specific context (sudden decline in demand and reduced revenue and earnings, which in turn created urgent liquidity needs as well as supply chain uncertainty). For operations in transport, the main argument was the need to continue investment projects in spite of reduced revenues (public transport, for instance, faced severely reduced traffic but had to continue operating despite frozen revenues).

Table 2: Distribution of approved top-ups in EIB COVID-19 operations by sector

Sector of economic activity	% of number	% of amount
SECTION H : TRANSPORTATION AND STORAGE	27%	47%
SECTION C : MANUFACTURING	30%	24%
SECTION Z : GLOBAL LOANS, LOANS FOR SMES, LOANS FOR SMES AND MID-CAPS, LOANS FOR MID	22%	9%
SECTION F : CONSTRUCTION	16%	7%
SECTION P : EDUCATION	5%	3%
SECTION J : INFORMATION AND COMMUNICATION	4%	2%
SECTION M : PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	8%	2%
SECTION Q : HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	6%	2%
SECTION D : ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	8%	1%
SECTION E : WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	4%	1%
SECTION G : WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	1%	1%
SECTION A : AGRICULTURE, FORESTRY AND FISHING	3%	0%
SECTION K : FINANCIAL AND INSURANCE ACTIVITIES	1%	0%
SECTION N : ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1%	0%
Total	100%	100%

Source: IG/EV based on EIB data as of mid-2021

4.3 Is the EGF on track to reach its (revised) targets?

Key messages:

- By the end of August 2021, the EGF was on track to reach most of its updated targets. However, signatures stood at 45% of the total amount targeted by the end of the investment period (31 December 2021), while 72% of the time had elapsed between its launch and deadline for deployment.[64] At end-June 2021, the EGF portfolio was concentrated geographically as 46.04% of the signed amounts were directed to the top three EU members.
- Taking into account previous experiences with new initiatives (such as EFSI), it is reasonable to expect a short ramp-up period at the start (with slower progress in signatures compared to the time elapsed), before the market and EIB services become more familiar with how to promote the EGF products, and negotiate and structure operations.

94. A preliminary analysis of the EGF's progress towards reaching its targets by end-August 2021 has been undertaken to identify early signals for potential areas that may need more attention. The analysis builds on the following:

- **Scope:** progress of the six key performance indicators set for the EGF by the Contributors' Committee;
- **Targets:** the targets associated with the key performance indicators reflect the values set in June 2021, based on the utilisation of €20.8 billion in EGF resources, rather than the full deployment of the €24.4 billion made available at inception;
- **Timeframe:** the analysis takes 15 October 2020 as the starting point for the EGF's implementation. This date reflects the approval of the agreement between the EIB and EIF on the EGF products to be implemented;
- **Analysis of progress:** progress against the targets is assessed in comparison to the elapsed available time for deployment. By the end of August 2021, 72% of the time had elapsed between launch and the deadline for deployment (320 days had passed between 15 October 2020 and 31 August 2021, while the end of the investment period was on 31 December 2021). The EIB Group did not provide projections for the speed of deployment of the instruments. The analysis assumes a linear relationship between the two, and therefore does not factor in the potential for a ramp-up phase with implementation accelerating later on;
- **Reporting used for the EGF analysis:** the analysis is based on consolidated (EIB and EIF) EGF monthly data. For the purposes of the geographical concentration limits and resources mobilised for equity investments, the analysis is based on semi-annual EGF data.

95. **By the end of August 2021, the EGF was on track in terms of approvals but lagging behind in terms of signed amounts.** By 31 August 2021, EGF total approvals stood at 86% of the targeted amount, while 72% of the time had elapsed between its launch and deadline for deployment. However, EGF total signatures accounted for a total of €9.4 billion, or 45% of the targeted amount of €20.8 billion agreed in June 2021. EIB total approvals stood at 70% of the target, while signatures stood at 56%, slightly below the time elapsed (72%). EIF approvals, on the other hand, exceeded the targeted amount (105%), while signatures were well below the target amount, with only 32% of the target amount achieved. The lag in signatures and projected timelines for some reflects the presence of a ramp-up phase.

96. In terms of investment mobilised, the EGF's operations were above target at the end of August 2021, taking into account the implementation period elapsed by then. This result holds for both EIB and EIF products. In aggregate, €143.7 billion was expected to be mobilised by 31 August 2021, or 91% of the total amount targeted by the EGF, while 72% of the time had elapsed between its launch and deadline for deployment.

[64] As of October 2021, all EGF operations (except asset-backed securities transactions) need to be approved and signed by 31 December 2021; loans under risk-sharing or guarantee products can be allocated until 30 June 2022 under the EGF bespoke regime, or for EIF guarantees, until 31 December 2022 under the *de minimis regime*. Asset-backed securities transactions follow a different timeline: they may be approved by 31 December 2021, but signed by 30 June 2022.

97. **In terms of the mobilisation of finance for different groups of target beneficiaries, data at end-August 2021 indicated a higher concentration going towards larger corporates than desired.** The 65% floor in respect to small and medium enterprises was met at end-August 2021. The ability of the EIB Group to meet the target for small and medium businesses by the end of the investment period depended on the launch of the asset-backed securities product, through which intermediaries commit to generating an additional portfolio of lending to this category of company. Following the completion of the notification process by all EGF-participating EU members, the European Commission adopted a decision approving the EGF asset-backed securities product on 16 August 2021.

98. **At June-2021, the resources mobilised by EGF's equity and quasi-equity instruments were below the 7% cap.** On the basis of semi-annual EGF data at end-June 2021, venture and growth capital (through the EIF) and venture debt with SMEs and mid-caps (through the EIB) accounted for 1.80% of the share of EGF's investment mobilised, well below the 7% cap.

4.4 Will the EGF be able to demonstrate its results?

99. An evaluation of the EGF is planned two years after the end of the investment period. The rapid assessment includes an evaluability assessment, analysing whether the monitoring and reporting framework in place will provide adequate data to inform the planned evaluation of the EGF.[65] Even though the methods and questions for the planned EGF evaluation have not been developed yet, this evaluation will ultimately aim to assess the extent to which the EGF has achieved its expected results for the economy, beyond the mobilisation of investments.

Key messages:

- The EGF has a set of key performance indicators, which focus on what it is expected to deliver: €200 billion of total mobilised investments mainly for small and medium enterprises (outputs), and how (a cap on the use of certain product types, for instance).
- In line with the above, the current EGF risk monitoring and reporting framework focuses on quantitative indicators that track implementation progress and risk, reflecting the priorities of the Contributors' Committee.
- The EGF will build on the EIB's additionality and impact (AIM) framework to highlight how its operations address market failures. But a gap remains for demonstrating the unique value added by the EGF as a high-impact mandate.

100. **The EGF key performance indicators and associated targets reflect the priorities of the Contributors' Committee.** The EGF builds on lessons learned from other crisis response initiatives and sets specific targets for reaching small and medium enterprises, mobilising investment via its multiplier effect and exhibiting a diverse geographical reach. It is understandable that binding targets are only defined at a level where the EIB has direct control (the delivery of financial support). However, the absence of a narrative about the expected effects of the investments mobilised presents a risk of giving priority to volume targets in the approval of products and in the monitoring of the EGF portfolio. The 2018 evaluation of EFSI already pointed out the risk of focusing the assessment and communication of performance on the multiplier effect.[66]

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[65] The overall purpose of an evaluability assessment is to inform the timing of an evaluation and to improve the prospects of an evaluation producing useful results. Evaluation literature identifies the following dimensions of evaluability:
- Evaluability "in principle," given the nature of the project theory of change.
- Evaluability "in practice," given the availability of relevant data and the capacity of management systems to provide them.
- The utility and practicality of an evaluation, given the views and availability of relevant stakeholders.

Source: Better Evaluation.org

[66] IG/EV, Evaluation of EFSI of June 2018: "The evaluation underlines that achieving (or missing) the precise target of €315 billion by mid-2018 will not make much difference in economic terms – bearing in mind that the economic impact of EFSI projects will only materialise once the actual investments occur and the financing hits the economy. Therefore, it is important that the focus on volume targets does not come at the expense of the additionality of operations, which is what matters most for the structural, longer-term impact of EFSI. […] the focus on achieving the specific volume target by the associated deadline might be detracting from what matters most for the structural, longer-term impact of EFSI, namely the additionality of operations." Available here.

101. **Although using an existing results framework when deploying a short-term crisis response instrument makes sense, it poses a challenge for monitoring and assessing the instrument's unique value added as an impact finance mandate.** The Group's decision to focus reporting on the key performance indicators requested by its contributors combined with its existing additionality and impact (AIM) frameworks can be considered an efficient way to ensure accountability. The AIM framework is expected to demonstrate the additionality of the individual operations financed (in offering support that would not have been available in the market). However, there will also be a gap in demonstrating the unique value of the initiative as an impact finance mandate (the difference made by the EGF as compared to the Group's interventions under its own resources or existing mandates).

5. Lessons learned and way forward

This rapid assessment of an ongoing crisis identifies both lessons intended to inform the Group's response to future crises, and recommendations on which actions need to be implemented.

5.1 The immediate response was set up quickly and with agility

102. **In a difficult business and working environment — also affecting its own workforce — the EIB Group showed agility in setting up an immediate response to the COVID-19 crisis.** It built up a base of knowledge on the changing economic outlook, allowing it to stay alert to the evolution of the COVID-19 crisis. It designed adequate tailor-made solutions, within the constraints of its available capital and risk-taking capacity. Under its emergency response, the EIB temporarily accepted significant deviations from its normal procedures, including the financing of non-project related investments (working capital finance) and an increase of its co-financing share. These decisions were justified by the exceptional economic outlook, were duly documented by the EIB, and were found to be relevant to addressing firms' liquidity constraints. Both the EIB and the EIF were particularly agile in mobilising several existing mandates to rapidly scale up their response in favour of small and medium enterprises. This agility allowed the Group to respond at considerable scale: EIB operations benefiting from COVID-19 enabling measures represented 35% of its signatures in 2020 and 38% by mid-2021[67]. The EIF's mandates with a significant COVID-19 component accounted for 24% of the total EIF signatures at end 2020 (their budget had been fully utilised by then).

103. **In the emergency phase of the crisis, the most urgent priority was to help address firms' short-term liquidity needs as fast as possible.** While there is always room for improvement, the setup of the Group's response was relatively speedy and timely. All measures deployed as part of the immediate response were already designed and implemented by early Q2 2020. For the EIB, several of these measures, combined with a delegation of their implementation to management and temporary fast-track procedures, were conducive to significantly accelerating the time to first disbursement. Likewise, the EIF adopted a number of actions which increased the speed of deployment, particularly for its guarantee products. Working with existing clients to implement tried-and-tested products, enhancing existing operations and amending existing mandates were highly conducive to the speedy deployment of the emergency response on the ground.

5.2 The immediate response package addressed the urgent needs of the Group's counterparties

104. Evidence collected from IG/EV's survey of EIB Group clients and interviews with representatives of economic sectors all concur: **the products deployed as part of the Group's emergency response were relevant for helping businesses access sufficient liquidity, and therefore maintain stability in the context of commercial and operational disruption**.

105. **As regards the EIB's direct financing of projects:**

- During the emergency phase of the crisis, demand for liquidity increased as firms needed to finance their working capital requirements or build precautionary liquidity buffers. The EIB's products addressed corporate and public sector clients' needs for liquidity on favourable terms, to enable them to continue or complete their ongoing investments. The long-term funding at lower costs and with longer loan tenors were particularly appreciated, in an environment of strained liquidity and high uncertainty.
- The enabling measures offered for the direct financing of projects helped promoters mitigate the adverse effects of the crisis on project continuity. The most frequent consequence of the crisis cited by promoters was pressure on their project completion timelines, followed by additional costs incurred, and, for just 28%, pressure on their ability to finance their project share. The EIB allowed the promoters who felt pressure on timelines an extension of their project completion deadline. Manufacturing and transport

[67] Latest dataset available at the time of writing this report.

were the sectors to benefit most frequently from the EIB's top-up financing, which helped clients complete their investments, contend with a sudden decline in demand and revenue, or address supply chain uncertainty.

106. **As regards the Group's intermediated operations**:

- Via its guarantees and risk-sharing products, the Group primarily addressed financial intermediaries' needs for credit risk protection and capital relief, in a context where firms were increasing their requests for postponements of debt obligations, rescheduling of payment dates, credit holidays, or capital payment deferrals. In an environment of high uncertainty, the financial intermediaries benefiting from EIB credit lines strongly valued its long-term funding on favourable terms, followed by the reputational benefit of working with the EIB. Protection against urgent liquidity shortages was less of a motivation for intermediaries to apply for EIB's credit lines, particularly because the ECB's massive pandemic emergency purchase programme already covered urgent liquidity needs on favourable terms. Feedback from the banking sector (survey and interviews) indicates that the Group's support was relevant for preserving lending on favourable conditions to firms, including final beneficiaries with difficulties in accessing finance. Expanding the range of support to include working capital finance helped alleviate the intense liquidity pressure felt by firms. These interventions were relevant to helping avert a wave of bankruptcies and the associated systemic risks. It is however difficult at this stage to distinguish the specific contribution of the Group from the effect of national measures.
- The enabling measures offered for intermediated operations aimed to incentivise financial intermediaries to provide a form of financing that meets the needs of firms hit, or at risk of being hit, by the crisis, with the ultimate goals of preserving their business continuity and credit history, as well as the financial stability of the banking sector. Under COSME LGF and InnovFin SMEG, the enhanced guarantee risk coverage agreed by the mandator (European Commission) proved to be very conducive in helping intermediaries (i) originate the eligible portfolio on the right scale and at the right speed and (ii) respond to diverse emergency needs of their clients. The intermediaries surveyed declared in particular that they granted more postponements of debt obligations, rescheduling of payment dates or credit holidays, as these were better covered by the guarantees. The EIB mainly deployed measures aiming to relax the conditions and constraints for building intermediated lending portfolios or to reduce the administrative burden for intermediaries; this is because the EIB was restricted in its available resources and in its ability to enhance its risk-taking capacity under its existing operational plans and mandates. The measures aiming to relax constraints had a more positive effect on helping intermediaries accelerate or fully originate their sub-loan portfolios.

Lesson 1: The provision of guarantees to intermediaries to cover the risk associated with amendments to the repayment terms of their clients (including the postponement of debt obligations, rescheduling of payment dates or credit holidays) is particularly conducive to helping address the urgent liquidity needs of firms resulting from a crisis.

Rationale: under COSME LGF and InnovFin SMEG, the mandator agreed to improve the conditions offered to financial intermediaries in response to COVID-19 by extending its guarantee coverage not only to working capital finance, but also to amendments to repayment terms, including postponements of debt obligations, rescheduling of payment dates or credit holidays. The financial intermediaries surveyed by this study indicated that this extended coverage incentivised them to grant more of these amendments with improved conditions (collateral requirements, risk-related margins and fees). Such amendments are relevant to lowering firms' liquidity constraints in a context of demand and supply chain disruption.

5.3 But more flexibility would have been needed in the partial extension of the EIB's emergency support

107. **Academic literature and recent studies insist on the importance of carefully managing the transition from an emergency phase towards the recovery phase**, especially in the context of this crisis since it results from a pandemic. As opposed to a U-shaped recovery from

crises resulting from natural disasters, the recovery associated with pandemic-related crises is contingent on the end of lockdown measures, vaccination rollouts and the containment of variants and therefore follows more of a "W shape."

108. **In December 2020, the EIB Board of Directors decided to prolong the availability of enabling measures for only one more quarter and to discontinue them after March 2021, except for public health sector operations.** However, in April 2021, a third epidemic wave was underway and strict containment measures were still being implemented in several EU regions and for several contact-intensive sectors. There were also concerns that the pandemic would run through a fourth wave after the summer of 2021. Several economic sectors (including hospitality and tourism, heritage and culture) were still affected by restrictions on movement in Q2 2021 and were barely progressing from the emergency to the recovery phase. Finally, the pipeline received from the EIB's transactional departments indicated that there was continuous and widespread demand for a variety of its COVID-19 enabling measures throughout 2021. Considering these signals, more flexibility would have been needed in the partial phasing-out of the EIB's emergency support after March 2021.

Lesson 2: Given the unpredictable length of a pandemic-related crisis, the decision to activate or discontinue a crisis response should be: (i) continuously revisited as the crisis unfolds; and (ii) informed by updated analyses of the context and demand.

Rationale: the transition from emergency to recovery in pandemic-related crises is contingent on the end of lockdown measures and vaccination rollouts. Studies and market analyses indicated that the economic situation was largely unpredictable at the time the EIB decided to partly prolong the enabling measures. In addition, the requests for emergency support received by the EIB Group for COVID-19 financing were closely correlated to the spring and autumn 2020 lockdowns, which suggests that there could still have been demand for emergency support in April to July 2021, when lockdowns were still imposed in several regions and for several contact-intensive sectors. The pipeline received from the EIB's transactional departments indicated that there was continuous and widespread demand for a variety of its COVID-19 enabling measures throughout 2021. However, in December 2020, the EIB Board of Directors decided to prolong the availability of enabling measures for only one more quarter and to discontinue them after March 2021, except for public health sector operations. In an inherently uncertain crisis context, the phasing-out of the crisis response should build on continuously updated analyses of the economic and financial context and of market needs.

5.4 Financing was directed to priority sectors, but disbursements were constrained by market conditions

109. **The Group's COVID-19 support was directed to the priority sectors** (namely the health sector, small and medium enterprises and vulnerable sectors[68]), either by means of financing, or waivers and deferrals.

- In the health sector, the EIB experienced a steep increase in signed volumes: €3.9 billion in 2020 and €1.9 billion in the first half of 2021, compared to €1.4 billion in 2019. EIB support covered the increase in emergency capacity, vaccination campaigns, and funding for health and life science projects with public sector promoters. A number of facilities and products under InnovFin were instrumental in financing health solutions directly addressing the COVID-19 health crisis (including support for vaccine development and manufacturing), such as the InnovFin Infectious Diseases Finance Facility and the InnovFin Corporate Research Equity, which provided support to BioNTech.
- Intermediated financing of SMEs and mid-caps accounts for two-thirds of the EIB's COVID-19 signatures, and 100% of the EIF's financing. The surge in the pandemic prompted the EIB to revise up its overall signature target for 2020 under its public policy goal for SMEs and mid-caps, from an initial €15.8 billion to €20.0 billion. Signed volumes under this policy goal reached €19.0 billion at year-end 2020.

[68] Vulnerable sectors were jointly identified by the Economics (ECON) Department, the Transactions Management and Restructuring (TMR) Directorate and the Group Risk and Compliance (GR&C) Directorate, as sectors impacted by the economic effects of the COVID-19 crisis, notwithstanding the credit quality of a borrower.

- The sectors identified by the EIB as vulnerable were principally offered measures intended to alleviate short-term payment obligations. The main industries concerned were air transport, oil and gas, leisure facilities, restaurants and retail.

110. **The geographical distribution of signed COVID-19 operations was fair and balanced overall, albeit with exceptions.** The EIB Board expected a fair and balanced geographical distribution of the Bank's emergency response, directed towards the most affected countries. Italy and Spain alone accounted for 50% of the EIB's COVID-19 portfolio in terms of signatures at mid-2021; they were amongst the countries most affected by the crisis (in terms of decline in GDP). In contrast, the crisis hit Malta, Slovenia and Cyprus severely, but these countries received a smaller portion of the COVID-19 envelope compared to their traditional share from the EIB, or no portion at all. Other EU members with traditionally large shares of EIB financing (France, Germany and Poland) received a relatively lower share of COVID-19 financing, which is probably explained by the availability of large national response schemes.

111. **The EIB crisis response was disbursed faster than non-COVID-19 EIB operations in the same period.** Disbursement rates were particularly high in the early stages of the crisis (May to July 2020), when firms' demand for liquidity was high. However, the pace of disbursements slowed down between August 2020 and April 2021, before increasing again in May 2021. This trend was common to the entire EIB portfolio and was not specific to its COVID-19 operations. The pace of signatures and disbursements to the real economy has been constrained by three main factors.

- First, interviews with EIB services and client representatives indicate that the prevailing market conditions, especially low interest rates, are eroding the EIB's price competitiveness and may ultimately deter clients from drawing on available funds.
- Second, this phenomenon is exacerbated by the abundance of available liquidity under the ECB's pandemic emergency purchase programme (PEPP), as well as EU and national support programmes.
- Finally, anecdotal evidence suggests that in some cases, clients have followed a precautionary approach, preferring to sign operations with the EIB as a contingency buffer and for its signalling effect, while ultimately not drawing down the financing made available to them by the Bank.

5.5 The EGF had an important role to play in enhancing the Group's relevance, but delays have partly affected its attractiveness and relevance as an emergency tool

112. **The EGF was set up to ensure that companies obtain short-term liquidity to weather the crisis (liquidity response) and are able to continue their development in the medium to long term (recovery response).** The EIB Group needed the EGF to address the substantive market needs for risk coverage and capital relief beyond what it could have offered under its own resources and existing mandates. The EGF as an impact financing mandate clearly complemented the EIB Group's immediate response in terms of risk segments and associated products, volumes and leverage. Complementarity between the EGF and national schemes is set to increase, as most national schemes are now being phased out.

113. **For the EGF to serve as a liquidity response instrument, speed was key**: it was expected to rapidly deploy a high volume of financing to address urgent liquidity needs. It was set up significantly faster than other EIB mandates, building on the extraordinary efforts of the EIB Group to originate, present and obtain the approval of this initiative not only in a very short period of time, but also in a challenging operational context. However, the EGF experienced a six-month delay in its operational launch, which was initially planned for 1 June 2020. These delays partly resulted from processes inherent in the launch of a new ad hoc mandate with multiple contributors (such as the finalisation of contributions from participating EU members and building consensus on governance, risk-bearing capacity and other mandate design aspects), as well as the need for EU State aid clearance for an instrument supported by EU members' resources. These delays left financial intermediaries with less time to build up the portfolio covered by EGF products, making these products less attractive for them. The delays have also partly reduced the EGF's relevance as a countercyclical response to the liquidity crisis: it became operational when urgent liquidity needs had been largely addressed.

Recommendation 1: The EIB Group should consider establishing a crisis mechanism that will enable it to quickly address future emergency needs.

Rationale: setting up the EGF — a brand new initiative based on the contribution of multiple contributors with ad hoc governance arrangements — required time, which undermined the provision of financing for urgent needs in the very short term. Although the EGF was formally approved and set up significantly faster than past EIB Group mandates, it experienced severe delays in its operational launch, reducing its relevance as a countercyclical response to an urgent liquidity crisis. If the Group intends to address the emergency financing needs resulting from future crises, it should be better prepared, so that it can act quicker. The Group should learn from the EGF experience and consider a crisis response mechanism that would be ready for future deployment. The mechanism would in principle combine: (i) pre-defined governance arrangements to transfer some of the coordination costs upfront; and (ii) built-in flexibility to address different types of crisis events and adjust the course of implementation as the crisis unfolds. The Group could decide on the most appropriate vehicle for applying these principles. As a minimum, some of the governance arrangements could be defined upfront (such as mandate structure, type and modalities of contributions, rules of procedure with contributors, reporting and monitoring framework, etc.). To the extent desired, other aspects could also be defined upfront (such as activation/triggering conditions, financial pledges, product mix and risk appetite).

114. **The EGF is relevant for ensuring that EU firms have access to liquidity to continue their growth and development in the medium to long term**, primarily by providing risk coverage and capital relief, and by helping reduce credit concentration for financial intermediaries.

115. **By the end of August 2021[69], the EGF was on track to reach most of its updated targets**, including for approvals, investment mobilised, and distribution of finance by target beneficiaries. Signatures stood however at 45% of the total amount targeted by the end of the investment period (31 December 2021), while 72% of the time had elapsed between its launch and deadline for deployment. Taking into account previous experiences with new initiatives (such as EFSI), it is reasonable to expect slower progress in signatures in the beginning of the investment period, and a ramp-up closer to the deadline for implementation.

5.6 In the recovery phase of the crisis, over-indebtedness and under-capitalisation hamper investments in firms' transformation

116. **The pandemic has left the EU corporate sector more vulnerable to insolvencies.** Massive liquidity support in the emergency phase of the COVID-19 crisis has largely mitigated the output contraction, as well as employment and income losses. However, it has also left many firms with debt overhang. The loans had relatively short grace periods, so will soon add to debt-service requirements. As European firms strive to recover, they will require funding that allows them to manage their over-indebtedness and under-capitalisation, so they can continue investing in their transformation.

117. **In this context, debt-distressed firms need long-term financial liabilities that are relatively junior in the creditor hierarchy.**[70] Non-debt financing in the form of equity investment addresses the needs of larger companies. This product is however unsuited to small mid-caps and SMEs, which do not have access to capital markets to enhance their capital base and usually do not wish to give up control of their business, but are instead willing to pay a premium to avoid diluting ownership and are also prepared to distribute a share of profits to investors. Hybrid products suitable for the specific needs of smaller firms are already available

[69] Latest dataset available at the time of writing this report.

[70] Source: Lehmann, A. (2021) 'Confronting the risks: corporate debt in the wake of the pandemic', Bruegel Blog, 28 April 2021, available here.

in several Member States.[71] However studies point to their insufficient scale to cater for the massive non-debt funding gap at EU level.[72]

118. **This market gap confirms the relevance of the Group's subordinated products** — including equity and quasi-equity products under the EGF — for helping smaller firms remain solvent and invest in the recovery phase. However, equity and quasi-equity products under the EGF are primarily directed to high-growth firms, and the EGF has insufficient built-in flexibility to scale up its efforts on that front. It is restricted by: (i) the limit set by its contributors on equity or equity-like transactions for SMEs and mid-caps (capped at 7% of EGF-supported financing); and (ii) the use of other products with a higher multiplier effect on investments being encouraged by the target set for the expected resources mobilised in transactions.

Recommendation 2: In the recovery phase of the crisis, the EIB Group should assess the feasibility of scaling up its provision of support to SMEs and small mid-caps with subordinated features, with a view to enabling them to continue investing (especially in their green and digital transformation) while preserving their solvency.

Rationale: The COVID-19 crisis has left many firms with debt overhang and at risk of insolvency. Over-indebtedness and under-capitalisation are likely to deter private investment going forward. Smaller firms need in particular to access subordinated debt and other products for which the lenders' risks are similar to those for equity, while preserving control over ownership. The Group's quasi-equity product offering constitutes a relevant response to the financing needs of smaller firms with high growth potential. Innovative responses are also needed to support the recapitalisation of firms with lower growth potential and whose capital was destroyed during the crisis. However, the deployment of these products is subject to the Group's risk appetite and available capital. Therefore, the Group could explore, among others, the use of existing or new mandates to scale up its support (including with individual Member States under the Recovery and Resilience Facility and possibly under a revamped EGF with a higher solvency support component). In addition, the Group could explore the feasibility of enhancing the subordinated features of its existing debt products (such as longer maturities or grace periods).

5.7 The EGF's reporting framework can be considered adequate to ensure accountability and to demonstrate additionality

119. **The current EGF monitoring and reporting framework focuses on tracking risk and progress in mobilising investments, reflecting the priorities of the Contributors' Committee.** The EGF has a set of key performance indicators which focus on *what* it is expected to deliver (€200 billion of total investment mobilised mainly for small and medium enterprises), and *how* (a cap on the use of certain product types, for instance).The EGF will also build on the EIB's additionality and impact (AIM) framework to highlight how its operations address market failures.

120. **This approach can be considered an efficient way to ensure accountability and demonstrate additionality**, given that the EGF has no resources set aside for implementing its monitoring and reporting framework. However, in the longer term, it will be important to assess the impact achieved by the EGF as it was designed as a high-impact mandate. To this end, an evaluation of the EGF is planned two years after the end of its investment period. In this context, IG/EV will explore the possibility of assessing the impact of the EGF beyond the additionality of its individual operations.

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[71] The Association for Financial Markets in Europe (AFME) notes that certain EU members have a well-established range of hybrid instruments available, including subordinated debt, profit participation instruments such as the "Genussschein" in Germany, and similar instruments in other countries including Austria, France, Sweden and Denmark, and convertible bonds as well as in payment-in-kind ("PIK") bonds. Source: AFME, Recapitalising EU businesses post COVID-19, January 2021. Only nine EU members have so far adopted recapitalisation schemes under the State aid Temporary Framework.

[72] Sources: IMF European Department, Solvency support for enterprises: key considerations and preliminary lessons from European programs (July 2021) here. ECB, The role of government for the non-financial corporate sector during the COVID-19 crisis (May 2021) here. COMMISSION STAFF WORKING DOCUMENT Identifying Europe's recovery needs (27 May 2020) here.

ANNEX 1 - OVERVIEW OF METHODS

As mentioned in Section 2.2, the rapid assessment builds on a combination of qualitative and quantitative methods for data collection and analysis.

The qualitative methods comprise the following:

- Review of key EIB Group strategic, policy/mandate (e.g. EGF) and operational documents;
- Review of relevant economic and policy literature;
- Review of internal documents justifying the use of enabling measures for a subset of EIB operations;
- Interviews with EIB Group services and representatives of client associations.

The evaluation reviewed a range of relevant operational, strategic and policy documents, which included but were not limited to:

- EIB Group operational planning in response to the COVID-19 crisis;
- EIB Group analytical work on market needs and expected demand;
- EIB Group policy documents in relation to new mandates/initiatives (such as the EGF), and amendments to existing mandates (such as the COSME Loan Guarantee Facility and the InnovFin SME Guarantee Facility);
- Policy documents on other EU-level (by the European Commission, ECB and ESM, for example) and national initiatives.

In addition, the evaluation carried out a literature review of relevant academic and other studies (conducted by the EIB Group's economic research teams, for instance) to identify market needs and priorities as a result of the COVID-19 crisis, and the extent to which they have been addressed by the initiatives and products offered by the EIB Group. Moreover, keeping in mind the diverse financing needs of companies, and the corresponding large volume of support for this financing, the evaluation reviewed ECB analysis and survey data on macro trends in bank lending and the needs of small and medium enterprises in the euro area (as a proxy for the European Union).

For a subset [71] of EIB operations which benefited from operational enabling measures and top-ups, the evaluation (i) analysed internal documents justifying the use of such measures, (ii) extracted and compiled key data, and (iii) identified patterns and trends in terms of client actions and needs in the context of the crisis.

The above was supplemented by interviews with a range of stakeholders, both internal (EIB Group) and external (representatives of client associations[73]) to collect perceptions on the rationale and deployment of the EIB Group measures mobilised in response to the needs and demands of market players, and on how these measures fit in with other EU and national initiatives.

The quantitative methods comprise the following:

- A comprehensive analysis of the so-called COVID-19 portfolio (see central and peripheral scope described above);
- A comparative analysis of key dimensions of the COVID-19 portfolio (such as the pace of approval/signature/disbursement and allocation) with two comparison groups: (i) non-COVID-19 portfolio of operations signed in the same period, and (ii) pre-COVID-19 portfolio of operations signed between 2015 and 2019;
- A survey of EIB Group clients having benefited from COVID-19 operational enabling measures.

[73] Association of Financial Markets in Europe (AFME), BusinessEurope, European Banking Association (EBA), SMEUnited.

COVID-19 portfolio

The portfolio includes EIB and EIF operations that were signed or amended between the end of April 2020 and the end of June 2021 (when this report was written) and flagged as being part of the Group's response. For EIB operations, this includes both existing operations (approved and/or signed before April 2020) that benefited from the operational enabling measures in the period under review, as well as new operations (approved and signed in the same period) that benefited from enabling measures — including under the EGF. The population of such operations was identified using quarterly operational data. For the EIF, this includes transactions signed or amended (with increased budgets or enhanced terms) both under existing mandates (for example COSME and InnovFin), as well as under new mandates (such as the EGF and the Corona Matching Facility). The population of such transactions was based on data received from the EIF and cross-checked with the EIF quarterly COVID-19 data.

Our analysis focuses mostly on signed operations (and corresponding amounts) as they provide the best possible estimate of the financing support provided to the economy at any given moment. Signed amounts imply the existence of a binding financing contract between the EIB Group and its clients and are not just a commitment (as in the case of approvals). In comparison, approvals might overstate the support provided as attrition may occur between the approval and the signing of operations, and disbursements might understate the support provided as there is normally a time lag between signature and disbursements, driven by a number of factors, including market financing conditions.

Survey

The COVID-19 portfolio of signed operations within the European Union was used to identify which EIB and EIF clients to survey. As the compilation of clients' contact details is a time-consuming process and polling was launched in May 2021, the survey covered operations signed at end-2020. In view of the numerous surveys that were recently completed or ongoing, as well as the presence of borrowers/counterparties with more than one operation, thorough checks were carried out during the evaluation to avoid over-surveying the same counterparties. Overall, the surveys achieved a 46% response rate (see table below).

For the EIB, the evaluation identified 271 signed COVID-19 operations at end-2020. From this long list of operations and corresponding borrowers, we excluded the following: (i) equity and quasi-equity operations (which represented a very small portion of the portfolio and did not warrant a dedicated questionnaire), (ii) operations covered by recently completed or ongoing evaluations (Evaluation of the European Fund for Strategic Investments (EFSI) and Evaluation of the EIB's Special Activities), and (iii) operations that were under audit or investigation, or had other sensitive commercial issues ongoing. This resulted in a final population of 155 operations, comprising a range of products (asset-backed securities, guarantees, investment and framework loans and multi-beneficiary intermediated loans), with 114 corresponding borrowers. The EIB survey was open from 25 May until 9 June. A more detailed breakdown of the population surveyed and response rate is presented in Table 3 below.

Table 3: Breakdown of population surveyed by type of financial product — EIB operations

Investment and framework loans (public sector & corporates)	
#Surveyed EIB borrowers	21
#Answers	9
Response rate (%)	43%
Investment and framework loans with top-ups (public sector & corporates)	
#Surveyed EIB borrowers	19
#Answers	9
Response rate (%)	47%
Asset-backed securities	
#Surveyed EIB borrowers	20
#Answers	9
Response rate (%)	45%

Guarantees	
#Surveyed EIB borrowers	2
#Answers	1
Response rate (%)	50%
Multi-beneficiary intermediated loans	
#Surveyed EIB borrowers	52
#Answers	24
Response rate (%)	46%
ALL EIB SURVEYS	
#Total surveyed EIB borrowers	**114**
Total #answers	**52**
Response rate (%)	**46%**

Source: IG/EV

For the EIF, the survey only comprised signed operations at end-2020 under the two main mandates within the central scope: the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility. The German Corona Matching Facility was excluded as it focuses on one Member State only and would provide a very partial picture. For COSME and InnovFin, the evaluation identified 197 COVID-19 transactions (benefiting from increased budgets or enhanced terms). From this long list of transactions, the evaluation excluded transactions and corresponding financial intermediaries that had been contacted during the evaluation of EFSI. The evaluation also included a check for financial intermediaries that had more than one transaction, either within the EIF portfolio or within the EIB portfolio. In cases where the same financial intermediary was involved in both COSME and InnovFin transactions, the intermediary was contacted in relation to the COSME transaction only (as COSME has a wider scope than InnovFin transactions which focus on innovative small and medium enterprises only). In the few cases where the same financial intermediary was involved in both EIF and EIB transactions, the intermediary received both surveys if the contact persons were different, or separate emails inviting them to respond to both surveys if the contact persons were the same. These checks resulted in 131 unique borrowers to be surveyed, with 121 corresponding unique emails (because in some cases, for instance, one email might cover a financial intermediary and its regional subsidiaries). The EIF survey was open from 17 May until 2 June. A more detailed breakdown of the population surveyed and response rate is presented in Table 4 below.

Table 4: Breakdown of population surveyed by type of financial product — EIF operations

COSME survey	
#Surveyed EIF borrowers	53
#Answers	28
Response rate (%)	53%
InnovFin survey	
#Surveyed EIF borrowers	68
#Answers	28
Response rate (%)	41%
ALL EIF SURVEYS	
#Total surveyed EIF borrowers	**121**
Total #answers	**56**
Response rate (%)	**46%**

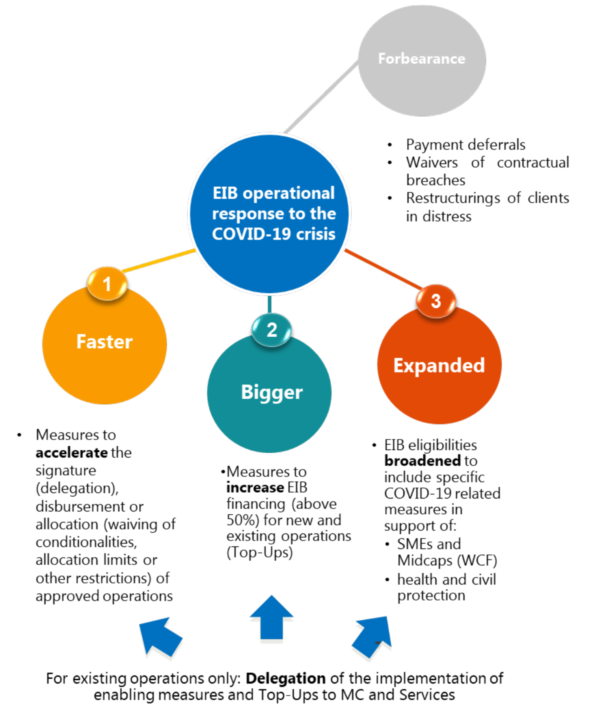
Source: IG/EV

Annex 2 - Summary of the EIB Group's immediate response

The EIB's operational emergency response

With the aim of making support available as fast as possible, the EIB's operational emergency response focused on using existing, standard products (such as investment loans, framework loans for the public sector and multi-beneficiary intermediated loans). Some key aspects/terms were amended to provide a better response to the specific needs triggered by this crisis. The amendments introduced had the following three objectives: to increase the volume of financing support available, to make this support available faster (in terms of faster signatures and disbursements), and to align this support with the financing needs of the real economy in the emergency phase (in terms of the categories of expenditure eligible for support).

Figure 22: Main pillars of the EIB's operational emergency response



Source: IG/EV based on EIB documents

For EIB operations, 22 temporary enabling measures were approved by the Board of Directors in April 2020, initially applicable to operations approved by end-December 2020. A subset of 18 measures was extended in December 2020 to operations approved by end-March 2021. The most important measures are outlined below. The measures were designed to meet the needs of three main categories of clients: (i) small and medium enterprises; (ii) corporates; and (iii) public sector counterparties. Priority was given to SMEs and public sector counterparties, as the majority of measures focused on these client categories. Corporate clients could only benefit from the three measures that were applicable to all client categories, described in the paragraph below. Though all sectors eligible for EIB financing were covered, particular attention was paid to the health sector, both in terms of helping public sector counterparties deal with increased health expenditure, as well as continuing and enhancing the EIB's support in financing health and biotech innovation, for example in the area of vaccine development.

From the overall set of measures, the three that were applicable to all client types (including corporates) **were primarily designed to increase the volume of financing support available in view of growing market needs for liquidity.** They temporarily lifted the 50% limit of EIB financing of projects' total investment costs so that the EIB could provide more financing to new eligible projects or top up existing projects.

To support specifically the small and medium enterprises and mid-caps affected by the COVID-19 crisis, the EIB primarily mobilised tried-and-tested products, the most important of which were offered under two flagship programme loans. The first was for multi-beneficiary intermediated loans, with €5 billion of financing available, expected to mobilise €7 billion in investment. At end-March 2021 (the deadline for the approval of operations benefiting from enabling measures), approved amounts represented 95% of the €5 billion available envelope, out of which 76% had been signed. The second flagship programme loan was for asset-backed securities, with €2 billion of financing available (under EFSI), expected to mobilise €14 billion of investment in total. Under this programme loan, the EIB participated in non-investment grade mezzanine tranches of securitisation structures of eligible financial intermediaries across the European Union. With such transactions, the EIB aimed to release capital that was bound in the securitised portfolios so that it could be used to generate new lending (to small and medium enterprises and mid-caps). This was considered a particular need, not only to enable intermediaries to respond to high demand for lending, but also to prevent or reverse a tightening of the conditions offered to final beneficiaries with capital constraints. At end-March 2021, 86% of the available envelope had been approved, out of which 67% had been signed. More details on the deployment of these flagship initiatives are provided in Section 4.1.

In addition to the three aforementioned measures, the measures introduced to enhance intermediated COVID-19 operations supporting small and medium enterprises through the programme loans described above aimed primarily to accelerate allocations. The most important/popular allowed the financing of working capital (not only investments), and softened the requirement that financial intermediaries build complementary portfolios of SME lending.

The measures introduced to support public sector counterparties aimed primarily to simplify/speed up disbursements and redirect/repurpose the financing available to better align it with needs. Similar to the approach used for small and medium enterprises, the products mobilised were fairly standard, and the counterparties supported were well-known to the Bank.

The operational enabling measures outlined above concern the terms and conditions applied to EIB operations. The EIB also put in place a number of fast-track procedures to speed up operations. Such fast-track procedures were introduced at different levels (board, management and services) and covered all stages of the operation life cycle that lie within the EIB's control, namely appraisal and approval (disbursement procedures were amended as far as possible under the enabling measures described above). Some fast-track procedures built on the previously agreed methods for interdepartmental cooperation introduced in 2019 to deal with end-of-year bundling phenomena. Other procedures focused on speeding up the approval of operations by Governing Bodies, for instance through shorter dispatch deadlines to management and/or the board, introducing approvals via written procedures, and delegating approvals. The programme loans mentioned above are examples of such delegation, with the EIB Board providing its ex-ante approval (global authorisation) to operations in line with the terms and conditions set out in the programme loans' approval documents. Authority was also delegated by management to service level (to Director-Generals for instance), particularly for approvals of top-ups for existing operations. As described in further detail in Section 4.2, the evidence indicates that the combination of these fast-track procedures resulted in significant reductions in the time needed for COVID-19 operations to progress from appraisal to approval to signature. These fast-track and delegation procedures were applied until the end of 2020.

EIB operational emergency response: zoom on the health sector

In the area of health, the EIB provided financing both for the immediate emergency response and for investments to strengthen health systems. Support was provided in the form of increased financing volumes (through the higher EIB financing share and top-up measures described above) and in amendments to the types of expenditure eligible for EIB financing to align them with the financing needs created by the pandemic. Unlike the enabling measures for other sectors, which could no longer be applied to operations approved after end-March 2021, the exceptional measures applicable to public health sector operations were extended until end-March 2022. In April 2021, in view of the continuing health crisis, which will continue to generate high investment needs for the medium and long term, the EIB Board of Directors affirmed that these measures can be applied to operations approved by end-March 2022, with an implementation period of up to five years. These measures widened eligibility to include operational expenses (not just capital expenses) and increased the limit of the EIB's share of financing.

The EIF's response to the COVID-19 crisis: enhancing existing mandates

Similar to the EIB, **the EIF's response to the crisis consisted mainly of topping up existing mandates with additional budgets to increase the amount of support available, as well as enhancing the terms offered, particularly under its biggest guarantee mandates, the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility.** The most important enhancements to the terms offered specifically under COSME LGF and InnovFin SMEG comprised the following:

- **Increase the guarantee rate for working capital from 50% to up to 80%** for transactions under the COSME Loan Guarantee Facility and InnovFin SME Guarantee Facility (with retroactive effect from April 2020);
- **COSME maximum guarantee cap rate increased from 20% to 25%;**
- **Minimum financial intermediary risk retention reduced from 20% to 10%;**
- **Postponement, rescheduling or credit holiday period explicitly allowed;**
- **Coverage of accrued or capitalised interest extended to 360 days;**
- Possibility of **increasing the maximum rollover period of revolving credit transactions from five to nine years (COSME Loan Guarantee Facility) and to six years (InnovFin SME Guarantee Facility);**
- Possibility of **verifying innovation eligibility criteria under InnovFin based on self-declarations** by companies rather than independent confirmations;
- Under the InnovFin SME Guarantee Facility, **refinancing of existing guaranteed transactions permitted;**
- Under the InnovFin SME Guarantee Facility, **minimum maturity of bridge financing reduced to six months.**

Unlike the EIB, which offered the enabling measures on an *à la carte basis*, the EIF offered its increased budgets and enhanced terms under guarantee mandates through open calls for expressions of interest. The same terms were offered to all financial intermediaries. Contract amendments to existing transactions were granted semi-automatically after financial intermediaries submitted their applications through an online form on the EIF's website.

ANNEX 3 - SIMPLIFIED INTERVENTION LOGIC OF EIB AND EIF COVID-19 ENABLING MEASURES (RECONSTRUCTED BY IG/EV)

Figure 23: Simplified intervention logic of EIB COVID-19 enabling measures (reconstructed by IG/EV)

Set of "operational emergency measures" approved by the EIB Board on 23 April 2020		⇨	**What difference the measure is expected to make for EIB clients**	⇨	**What EIB clients decide to do**	⇨	**Short-term effect on the project** vs. what would have happened under normal procedures			⇨	**Longer-term effect**
Pillar 1	EIB offers flexibility on timeline, waivers, simplified reporting	⇨	Reduced administrative or financial cost of EIB transaction	⇨	Clients request undisbursed amounts	⇨	Undisbursed amounts flow to the project	⇨	(*Project-based loans*) Project implementation without delays or cutbacks (*MBIL, Guarantee, ABS…*) Pathway to more SME lending by financial intermediaries + pillar 3: final beneficiaries can sustain short-term liquidity pressure & unexpected costs linked to the crisis & burden of the debt	⇨	Project viability not jeopardised by the crisis Final beneficiaries ensure business continuity and preserve credit history Financial intermediaries preserve financial stability
Pillar 2	EIB offers to increase its co-financing share	⇨	Reduced financial constraints on client's co-financing	⇨	Clients call to increase EIB financing of eligible expenditure	⇨	More financing is available to clients, who don't have to arbitrate between project financing and other [short-term] spending	⇨		⇨	
Pillar 3	EIB expands scope of eligible expenditure, including for working capital	⇨	Opportunity to fund unexpected costs incurred by the crisis (including liquidity needs)	⇨	Clients request an increase in the scope of eligible costs	⇨		⇨		⇨	
Fast-track & delegation	Faster implementation of EIB decision process		No effect on the behaviour of client		Faster flow of financing to the project	⇨					

Assumption: EIB price competitiveness

Figure 24: Simplified intervention logic of EIF COVID-19 measures under COSME LGF and InnovFin SMEG (reconstructed by IG/EV)

<table>
<tr><th>Measures taken under COSME LGF and InnovFin SMEG[74]</th><th colspan="3">Expected effects of measure on financial intermediaries</th><th>Expected effect on final beneficiaries/loan recipients</th></tr>
<tr><td>• [COSME & INNOVFIN] Guarantee rate for working capital increased from 50% to up to 80% with retroactive effect
• [ONLY INNOVFIN] Minimum contractual maturity of bridge financing lowered to six months</td><td>Increased risk coverage for working capital finance</td><td>⇨</td><td>Financial intermediaries incentivised to increase volume of working capital finance</td><td rowspan="6">Alleviate cash flow pressure

Reduce risk of default</td></tr>
<tr><td rowspan="2">• [ONLY COSME] Increased maximum (counter) guarantee cap rate</td><td>Guarantee covers risk for a larger portion of the portfolio</td><td>⇨</td><td>Financial intermediaries incentivised to do more of this type of lending
Increased risk protection for lending to clients otherwise not supported due to insufficient collateral
Alleviate internal concentrations and limit restrictions on individual obligators and/or sectors.</td></tr>
<tr><td>Increased capital relief</td><td>⇨</td><td>Via capital relief, leverage on SME lending</td></tr>
<tr><td>• [COSME & INNOVFIN] Minimum financial intermediary risk retention decreased from 20% to 10%</td><td>Guarantee covers a larger portion of the risk at sub-loan level</td><td>⇨</td><td>Same as measure B + enhance complementarity with national programmes offered in response to the COVID-19 crisis</td></tr>
<tr><td>• [COSME & INNOVFIN] Amendment to repayment terms: postponement, rescheduling or credit holiday period explicitly allowed</td><td>Guarantee covers risk associated with amendments/restructuring related to the emergency situation (amendments meant to improve the collectability of the claims)</td><td>⇨</td><td>Financial intermediaries incentivised to grant amendments/restructuring to final beneficiaries</td></tr>
<tr><td>• [COSME & INNOVFIN] Coverage of accrued or capitalised interest extended to up to 360 days</td><td>Increased risk coverage for capital payment deferrals</td><td>⇨</td><td>Financial intermediaries incentivised to grant such deferrals</td></tr>
<tr><td rowspan="2">• [COSME & INNOVFIN] Possibility of increasing the maximum rollover period of revolving credit transactions from five to nine years
• INNOVFIN: to six years</td><td rowspan="2">Increased risk coverage for overdrafts decided during the crisis, as repayment takes place longer after the crisis
Financial intermediary can lend more within the limit of the guarantee</td><td rowspan="2">⇨</td><td>Financial intermediaries incentivised to reduce collateral requirement and/or risk-related margin applied to overdrafts</td><td></td></tr>
<tr><td>Final beneficiaries will have fewer difficulties in committing to repay an overdraft and introduce a new request for longer after the crisis</td><td>Reduced refinancing risk of final beneficiaries</td></tr>
<tr><td>• [ONLY COSME] Extension of open availability period by an additional six months</td><td colspan="3">Increases prospects of fully mobilising the guaranteed amount</td><td>Alleviate cash flow pressure
Reduce risk of default</td></tr>
<tr><td>• [ONLY INNOVFIN] No need for independent verification of innovation eligibility criteria, self-declaration sufficient</td><td>Reduced administrative burden for financial intermediaries. Financial intermediaries are therefore allowed to deploy the underlying transaction portfolio more rapidly</td><td>⇨</td><td>Contributes to all effects above</td><td></td></tr>
<tr><td>• [ONLY INNOVFIN] Refinancing of eligible existing guaranteed transactions (within three months of existing maturity for loans already covered by InnovFin)</td><td>Allow for extension of COVID-19 terms to such maturing exposures?</td><td></td><td>Financial intermediaries incentivised to extend COVID-19 terms to such maturing exposure</td><td>Reduced risk that SMEs concerned will not be able to repay maturing exposures</td></tr>
</table>

[74] Sources: COSME Covid-19-addendum.pdf (eif.org) ; InnovFin Covid-19-addendum.pdf (eif.org)

About the Evaluation function

The evaluation function conducts independent evaluations of the EIB Group's activities. It assesses the relevance and performance of these activities in relation to their objectives and the evolving operating environment. It also helps the EIB Group draw lessons on how to continuously improve its work, thereby contributing to a culture of learning and evidence-based decision-making.

Evaluation reports are available from the EIB website: http://www.eib.org/evaluation

EIB GROUP EVALUATION

Rapid assessment of the EIB Group's operational response to the COVID-19 crisis

December 2021

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