

1. PURPOSE OF THE NOTE

1. The Board of Directors is invited to:
 - Approve the creation of the ~~Pan-European~~ EU COVID-19 Guarantee Fund (EUCGF) ~~in response to COVID-19 crisis~~;
 - ~~Authorise~~ Invite the delegation of all decisions related to the structuring of the Fund to the Management Committee to prepare a final structuring proposal to be presented to the Board of Directors for final endorsement.

2 BACKGROUND INFORMATION

2. There is an urgent need for a strong and coordinated response at the EU level to the unprecedented economic challenges brought on by the COVID-19 pandemic, which is affecting all EU Member States. This shock brings multiple challenges at the same time: it is halting production in affected countries, hitting supply chains across the world, and is leading into a steep drop in consumption together with a collapse in confidence levels. The stringent lockdown measures being applied, albeit essential to contain the virus, are pushing the EU economy into an unprecedented sudden stop, from which recovery will not be straightforward or automatic.
3. The rescue measures and firewalls that were put in place after the global financial and euro crises have been designed to fight crises that originate in the financial or sovereign sector. This time is different. What we face today is a shock first and foremost to the real economy. This is why the most effective intervention we can have is one that targets the millions of SMEs, midcaps and larger corporates that are struggling under the fallout of the coronavirus.
4. The European Investment Bank Group has already presented a Support Action Plan amounting up to EUR 40bn. However, given the gravity of the challenges facing the EU economy this is far from sufficient¹. To significantly and rapidly extend the EU's support for struggling EU SMEs, midcaps and corporates, the EIB Group is proposing to establish an EU ~~Pan-European~~ COVID-19 Guarantee Fund in response to COVID-19 ("Guarantee Fund"). The EC has been supportive and is proactively reaching out to EIB to find ways of joining forces to maximise impact
- 4.5. With regard to strengthening EIB activities, the Eurogroup concluded the following on 9 April as part of its *Report on the comprehensive economic policy response to the COVID-19 pandemic*: "Strengthening EIB activities. We welcome the initiative of the EIB Group to create a pan-European guarantee fund of EUR 25 billion, which could support EUR 200 billion of financing for companies with a focus on SMEs, throughout the EU, including through national

¹ Synergies with other actions proposed under Support Action Plan (SAP) will be explored, e.g. in case of ABS transaction foreseen under the SAP, a small additional First Loss Piece component could be considered to be provided under this Guarantee Fund to increase effectiveness of response through these instruments.

promotional banks. We invite the EIB to operationalize its proposal as soon as possible and stand ready to put it in place without delay, while ensuring complementarity with other EU initiatives and the future Invest EU programme. This initiative is an important contribution to preserving the level playing field of the single market in light of the national support schemes².

6. Member States will be invited to participate in the Guarantee Fund with an amount equal to their EIB capital key applied to EUR 25bn. Should the Fund reach a total subscription of EUR 25bn, it is expected to support up to EUR 200bn of additional targeted financing for SMEs, midcaps and corporates impacted by the COVID-19 crisis. It should be noted, that the foreseen multiplier will ultimately depend on the deployed product mix, itself a function of market needs, absorption capacity and other operational constraints.

3. KEY ELEMENTS FOR DECISION

3.1. OBJECTIVE OF THE GUARANTEE FUND

- 5-7. The objective of the Guarantee Fund is to respond to the economic impact of the COVID-19 pandemic outbreak by ensuring that SMEs, midcaps and corporates in the participating Member States have sufficient liquidity available to weather the rapidly unfolding crisis.

3.2. SET-UP OF THE GUARANTEE FUND

- 6-8. The Guarantee Fund will be established under the EIB's structure of Partnership Platform for Funds (PPF), benefitting from an existing legal framework and standardized processes and procedures, which will accelerate its set-up. Certain derogations from and changes to this legal framework and standardized processes and procedures will be necessary given the features and purpose of the Guarantee Fund. The Guarantee Fund will not be a separate legal entity.

- 7-9. Any Member State of the European Union shall be an eligible Contributor for purposes of the Guarantee Fund. Funds from ~~third parties, including the European Stability Mechanism or the EU Budget,~~ European Institutions shall also be eligible.

- 8-10. Contributions of Member States to the Guarantee Fund will take the form of guarantees (unfunded obligation)-) and funded contributions. Any losses incurred by EIB or EIF in the implementation of operations supported by the Guarantee Fund will be reimbursed by the Member States. The EIB³ will provide liquidity to all Member States as part of the structure, ~~such that Member~~

² <https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/>

³ Potentially other providers, like the ESM, could also provide liquidity.

States payments. In addition, Member States may decide to make a complementary upfront payment⁴. Re-payments on the liquidity line will take place at agreed fixed intervals.

9.11. Once established, the Guarantee Fund would provide irrevocable, unconditional, and first demand guarantees to the EIB and the EIF. Such guarantees will cover losses and related costs incurred from included operations. Any losses will be borne collectively by all participating Member States, but each Member State's contribution would be capped at the level of that Member State's participation in the Guarantee Fund. By pooling credit risk across all of the participating EU Member States the overall impact of the fund can be maximised whilst the average cost of the Fund will be significantly reduced compared to national schemes.

10.12. The Guarantee Fund will be established following first a call for contributions, which is expected to run until [4023 April 2020], provided that Member States accounting for at least 60% of EIB capital have made appropriate commitments to ensure sufficient scale and geographical coverage of the Fund. Later contributions shall be possible until a maximum subscription period.

11.13. In recognition of the crisis response nature of the Guarantee Fund, its governance will be organized to be as strike an appropriate balance between close involvement of the Contributors 'Committee and EIB and EIF Governing Bodies and the need for a lean as possible, thus enabling and quick decision-making process:

- TheThe initial Fund Description, including eligibility criteria, choice of products, pricing and risk levels, would be approved by the Member States as part of their contribution agreement. Any changes to the Fund description would need to be approved by the Contributors Committee, comprising representatives from all Member States that have executed a Contribution Agreement, would give global authorizations to the EIB and EIF to approve operations within certain scope and general parameters, as defined by the Committee.⁵
- ApprovalThe Contributors Committee would be involved in the approval of the use of guarantee for operations that do not fall within the . It will notably approve Guarantee Fund operations through tacit procedure, including by providing global authorization, authorizations to the EIB or any other the EIF. Under the PPF Rules, the tacit procedures can be interrupted and foresee a possibility to ask questions about operations.

⁴ Member States should be aware that the treasury management of any upfront payment could be subject to negative returns/interest rates. Hence, for the Member States that chose to make an upfront payment, there would need to be an undertaking to cover any residual shortage of funds due to negative returns/interest rates.

⁵ This departs from the original framework of the PPF, which foresees the Contributors Committee to approve individual operations.

- The Contributors Committee would meet physically or remotely at agreed intervals (e.g. once a month).
- All Guarantee Fund operations would need to follow EIB and EIF regular decision-making processes, including approval by the Boards. This means that all Guarantee Fund operations would need to be approved by the Contributors' Contributor's Committee through tacit procedure and by EIB Group governing bodies.
- The contributors committee Streamlining of governance could be explored to accelerate the decision-making process. For example, the Board could delegate approval of operations that would benefit from the guarantee to the MC. The Board may include parameters on such approvals relating e.g. to product type, potential beneficiaries etc.
- The Contributors Committee and the Board will receive regular reporting on Guarantee Fund operations from the EIB Group.

12.14. The intention is for operations under the Guarantee Fund to fall under the categorization of Impact Finance Mandate. Therefore, the Bank should bear no residual risk or losses and specific EIB Group rules, policies and procedures would apply, different from the rules, policies, and procedures that are applicable to the EIB Group's own risk operations, in line with the existing duty of care framework for Impact Finance Framework. Should EIB/EIF commit their own resources into any of the operations carried out with the support of the Guarantee Fund, such financing would follow standard EIB/EIF policies and procedures and with residual risk to be borne by EIB/EIF. The EIB Group capital contribution at product level would be within the Group capital constraints.

3.3. MEMBER STATES CONTRIBUTIONS

13.15. Each EU Member State would contribute to the Guarantee Fund through a contribution agreement to be entered into between the individual Member State and the EIB (the "Contribution Agreement").

14.16. The Contribution Agreements would define the amount each Member State commits to contribute (the "Commitment"), which shall amount to EUR 25bn times their shareholding in the EIB.

15.17. When signing the Contribution Agreements, Member States will agree to an equalisation mechanism to ensure that all Member States, both early and late contributors, bear their corresponding *pro rata* share of any losses, including with respect to operations approved under the Guarantee Fund since inception. This is to avoid unfairly penalizing Member States that enter into early Contribution Agreements with the EIB.

16.18. It is envisaged that the Guarantee Fund shall be temporary in nature. As such, undrawn commitments may be canceled subject to agreement amongst

Member States, when the activities of the Fund are not deemed to be necessary any longer.

3.4. ELIGIBILITY

3.4.1. GEOGRAPHIC ELIGIBILITY

~~17.19.~~ The Fund will finance operations in participating Member States, i.e. Member States that have signed contribution agreements. The contributions of any given Member State will be available for operations in all participating Member States, i.e. contributions will not be earmarked to support the operations in a given Member State. The total volume of operations supported by the Guarantee Fund in a given participating Member state will be subject to fund-specific concentration limits, to be defined. A concentration limit for the three largest participating countries will apply.

3.4.2. COUNTERPARTIES ELIGIBILITY

~~18.20.~~ The Fund will be designed to finance high risk operations and final beneficiaries that are viable in the long-term and would meet a lender's or other financial intermediaries' requirements for commercial financing, but are struggling due to the economic impact of the COVID-19 pandemic, with a focus on SMEs. These will be primarily private sector operations, ~~but can also include sub-sovereign operations.~~

~~19.21.~~ ~~All operations shall undergo an ex-ante due diligence or equivalent processes performed in accordance with EIB's or EIF's rules, policies and procedures, as applicable.~~ In light of the extraordinary challenge and the need for extraordinary intervention, the EIB and EIF shall apply credit requirements for the operations under the Guarantee Agreement that are less restrictive than their own and consistent with the objectives of the Guarantee Fund and in line with the Bank's Impact Finance Mandate framework.

3.4.3. REMUNERATION

~~20.22.~~ The Fund will generally not provide remuneration to participating Member States. In order to minimise crowding out and maximise impact and additionality as well as to ensure compliance with EU State Aid framework, some products could be implemented to financial intermediaries and final beneficiaries on remunerated basis. In such cases, the revenues collected will be used firstly to cover administrative and implementations costs for the running of the Fund. Any remaining revenues will be used to cover Member States guarantee calls.

3.4.4. FEES

23. ~~The EIB Group would, upon agreement with the contributing Member States, shall apply a fee structure for administering the Guarantee Fund and implementing operations under the Guarantee Fund.- It is up to the EIB and EIF~~

Boards and the Contributors Committee to define the final fee structure for the Guarantee Fund. Such fee structure should in principle will ensure EIB cost coverage and EIF remuneration in line with its statutory requirements. As per section 3.4.3, any revenues collected will be used in first instance to cover such administrative costs.

21.24. The Guarantee Fund will be implemented with the existing EIB Group resources and no new staff will be needed.

3.4.5. PROPOSED PRODUCT OFFERING

22.25. Products are expected to focus on high risk operations, primarily for private sector final beneficiaries, which will be complementary to the regular EIB Group product offering, including under EFSI and other mandates. The main types of interventions could fall under these categories.

- (1) Capped guarantees ~~(pass through)~~;
- (2) Uncapped guarantees⁶ and other types of risk sharing including through intermediaries/NPBs – applicable to all sizes of counterparts (e.g. small/medium/large corporates) including via securitization type of products;
- (3) Funded products to include mainly **equity type** – both **direct** (EGFFs, EDPs, IDFFs, co-investments and the likes) and indirect (through funds). Ideally again including those which need rescue now and may not be at market terms.

23.26. It should be noted that the Fund is still under structuring and some structural elements may be subject to change. As such, the exact split between EIB and EIF is yet to be determined.

27. In order to address the consequences of the unfolding crisis in the variety of EU markets and sectors impacted by COVID-19, the EIB Group needs to be able to deploy a broad mix of products, as per Table 1.

Table 1: Preliminary indicative product split

<u>Product</u>	<u>Guarantee Fund use</u>
<u>Risk sharing, funded and unfunded, including counter-guarantees for NPBs⁷</u>	<u>75-80%</u>
<u>Venture debt</u>	<u>5%</u>
<u>Venture capital and private equity</u>	<u>15-20%</u>

28. The EIB Group contribution will include, beyond the liquidity line, funding for certain products under the Guarantee Fund, notably for funded products such

⁶ Uncapped guarantees would require more internal analysis with respect to capital availability.

⁷ This includes capped and uncapped guarantees, as well as other forms of risk sharing with financial intermediaries, debt funds and securitisation.

as equity investments and possible ABS purchases, that could have an impact on RAC.

4. FINANCIAL IMPACT

~~24.29.~~ EIB will endeavour to establish the Fund in such a way that it is off-balance sheet, in order to avoid consolidation and protect its capital position, although the deployment of some products, notably funded products, will have an impact on the EIB's balance sheet. The Fund would be structured as an Impact Finance Mandate and no residual risks or costs will be borne by EIB, implying that the management of the Fund itself by EIB would have no negative impacts on EIB's key risk ratios.

~~25.30.~~ Notwithstanding this, given its ~~unfunded~~ possibly partly funded nature, EIB expects to provide a suitable level of liquidity into the structure to allow for timely payments. The liquidity provided by EIB will equate to a corresponding volume of new Member State exposure on EIB's balance sheet, leading in turn to some negative impacts on EIB's capital and liquidity ratios, although these impacts are expected to be relatively limited and within EIB's established risk tolerance thresholds. It should be noted that the deployment of certain products under the Guarantee Fund, notably funded products such as equity investments and possible ABS purchases may give rise to an additional risk impact for the Bank.

~~26.31.~~ In the current crisis environment it is important to highlight that the limited impact of the Guarantee Fund is likely to cumulate with other risk impacts, leading potentially to a more stretched risk position for EIB overall.

~~27.32.~~ At the time of submission, consultations with rating agencies are ongoing.

~~28.33.~~ The Guarantee Fund will aim at running on cost coverage basis.

5. NEXT STEPS / IMPLEMENTATION SCHEDULE

~~29.34.~~ Following the approval of the Board of Directors ~~[and Board of Governors]~~, the EIB will officially launch a Call for Contributions to the Member States which is expected to run until ~~[1023 April 2020]~~. In the call, all Member States will be asked for a contribution in the amount of EUR 25bn times their shareholding in the EIB. Such contribution, due to legislative reasons, could be expressed as a commitment in principle.

35. Following the Call, the Board will be presented with a final structuring of the Fund for its endorsement. Following that, contributing Member States will be asked to sign their Contribution agreements by 30 April 2020.

~~30.~~36. The Fund will be established shortly following that call and operations in Member States who contributed in the First Call will be eligible for support, provided that Member States accounting for at least 60% of EIB capital have made appropriate commitments.

~~31.~~37. In case, for legislative reasons, MS need additional time later contributions will be possible, subject to the appropriate commitment and equalisation mechanism and until a final subscription date, to be determined.

~~32.~~All decisions related to the structuring of the Fund would be delegated to the Management Committee.