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Why the European Parliament's oversight is slipping

The size and focus of the European Union's next Multiannual Financial Framework have been widely debated. However, a significant change has largely gone unnoticed. Financial instruments play an increasing role in the long-term EU budget as they are frequently backed up by budgetary guarantees.

These instruments include equity and debt, loan guarantees and venture capital, as well as capacity-building and risk-sharing facilities, occasionally combined with grants — the so-called blending facilities. Financial instruments are implemented in partnership with public and private institutions, such as banks, venture capitalists and angel investors.

These institutions determine the exact financing conditions, including interest rates and fees. Thus, the financial sector increasingly controls how money is spent. Known as "financialization," it is not limited to the EU.

The European Parliament claims democratic oversight over the European Commission. The most significant is budgetary control. For it to be effective, MEPs must ensure that the Commission spends money wisely. However, this is more difficult when EU funds are financialized. The draft regulations for the 2028-34 MFF demonstrate the pivotal role that these instruments have come to play.

In the regulations of the two largest EU funds, the Common Agricultural Policy and Cohesion Policy, the terms "financial instruments" and "budgetary guarantees" appear multiple times. Article 13(4) of the CAP regulation on support for investments for farmers and forest holders asks member states to "establish a list of ineligible investments and categories of expenditure," while Article 13(5) then says that the "requirement shall not apply where the support is provided through financial instruments." It seems these tools enjoy a special privilege.

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According to our calculations, the proportion of these instruments — including loans, blending and other financial devices — in the total EU budget has risen consistently over the last 25 years.

In the next MFF, this share will likely be even higher, making it more difficult to determine the real economic benefits.

In some cases, companies could, in fact, have manufactured goods and offered services even without a budget guarantee. Furthermore, routing an increasing proportion of public funds via financial intermediaries will lead to "leakages" of public money to the financial sector — money that could have been spent directly in the economy.

Moreover, when financial intermediaries receive EU funds, they then distribute these funds while collecting significant management fees. Despite this, the new draft regulation for the main EU fund for 2028-34 permits up to 15% of contributions to equity funds to be spent on fees, diminishing the funding that can be disbursed to SMEs and other beneficiaries.

The industry average for actively managed ESG — environmental, social and governance — equity funds is just 0.4% to 0.7% per year. Thus, it is unclear what the economic case is for allowing such extreme management fees, which would also complicate understanding how to measure the productivity of investments.

Furthermore, the income of financial institutions and their shareholders largely remain within the financial sector. Dividend payments are concentrated among the wealthier households.

Finally, financialization also affects the European Investment Bank. In 2024, the EIB Group provided almost 89 billion euros in new funding for more than 900 high-impact projects. It claims to have boosted "Europe's competitiveness and security."

However, it is difficult to confirm such bold claims. In fact, many observers deplore that the EU economy is suffering from high energy prices and an investment gap. As the budget becomes more financialized, tighter control over how the EIB and international financial institutions operate is required.

While MEPs may disagree on the priorities and size of the EU budget, we should all agree on exercising effective oversight and spending euros wisely for our citizens, rather than filling the coffers of banks and their wealthy shareholders. ✪