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DRAFT GENERAL BUDGET OF THE EUROPEAN UNION

Working Document Part XI

#EUBudget

2023
FINANCIAL YEAR

Budgetary Guarantees, Common Provisioning Fund and Contingent Liabilities

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Budget

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EUROPEAN COMMISSION

DRAFT GENERAL BUDGET
of the European Union
for the financial year 2023

Working Document
Part XI

Draft General Budget of the European Union for the Financial Year 2023

Working Document Part XI

Budgetary Guarantees, Common Provisioning Fund and Contingent Liabilities

COM(2022) 400 – June 2022

The 2023 Draft Budget is accompanied by thirteen 'Working Documents', as follows:

Part I: Programme Statements of operational expenditure

Working Document I contains, pursuant to Article 41(3)(h) of the Financial Regulation, Programme Statements, which provide for each spending programme comprehensive information on the financial implementation and progress in achieving the programme objectives. This year, the Programme Statements present the status at the end of 2021 for two different multiannual financial frameworks (MFF): 2021-2017, and 2014-2020 for those programmes for which substantial payments are still being implemented.

Part II: Human Resources of the EU institutions and executive agencies

Working Document II presents information on the human resources of the EU institutions and executive agencies, and in particular for the Commission, both for the establishment plans and for external personnel and across all headings of the multiannual financial framework. Moreover, pursuant to Article 41(3)(b) of the Financial Regulation, it provides a summary table for the period 2020 – 2023 which shows the number of full-time equivalents for each category of staff and the related appropriations for all institutions and bodies referred to in Article 70 of the Financial Regulation.

Part III: Bodies set up by the European Union having legal personality

Working Document III presents detailed information relating to all decentralised agencies and Joint Undertakings, with a transparent presentation of revenue, expenditure and staff levels of various Union bodies, pursuant to Article 41(3)(c) of the Financial Regulation.

Part IV: Pilot projects and preparatory actions

Working Document IV presents information on all pilot projects and preparatory actions which have budget appropriations (commitments and/or payments) in the 2023 Draft Budget, pursuant to Article 41(3)(f) of the Financial Regulation.

Part V: Budget implementation and assigned revenue

Working Document V presents the budget implementation forecast for 2022, information on assigned revenue (implementation in 2021 and estimation for 2023) and a progress report on outstanding commitments (RAL) pursuant to Article 41(3)(d) of the Financial Regulation.

Part VI: Commission expenditure under the administrative heading of the multiannual financial framework

Working Document VI encompasses administrative expenditure to be implemented by the Commission under the administrative heading of the multiannual financial framework (heading 7) in accordance with Article 317 of the Treaty on the Functioning of the European Union, as well as the budgets of the Offices (OP, OLAF, EPSO, OIB, OIL and PMO), pursuant to Article 41(3)(e) of the Financial Regulation.

Part VII: Commission buildings

Working Document VII presents information on buildings under Section III - Commission, pursuant to Article 266(1) of the Financial Regulation.

Part VIII: Expenditure related to the external action of the European Union

Working Document VIII presents information on human resources and expenditure related to the external action of the European Union, pursuant to Article 41(10) and (11) of the Financial Regulation.

Part IX: Funding to international organisations

Working Document IX presents funding provided to international organisations, across all MFF headings, pursuant to Article 41(3)(g) of the Financial Regulation.

Part X: Financial Instruments

Working Document X presents the use made of financial instruments, pursuant to Article 41(4) of the Financial Regulation.

Part XI: Budgetary Guarantees, Common Provisioning Fund and Contingent Liabilities

Working Document XI presents the implementation of Budgetary Guarantees, the Common Provisioning Fund and the assessment of the sustainability of the contingent liabilities arising from budgetary guarantees and financial assistance pursuant to Article 41(5) of the Financial Regulation.

Part XII: EU Trust funds

Working Document XII presents the activities supported by EU Trust Funds, their implementation and performance, pursuant to Article 41(6) of the Financial Regulation.

Part XIII: Payment schedules

Working Document XIII presents summary statements of the schedule of payments due in subsequent years to meet budgetary commitments entered into in previous years, pursuant to Article 41(3)(i) of the Financial Regulation.

TABLE OF CONTENTS

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OVERVIEW

The present report has three chapters. The **first chapter** provides an analysis of the budgetary guarantee programmes[1] that were granted at the end of 2021 namely the European Fund for Strategic Investments ("EFSI"), the European Fund for Sustainable Development ("EFSD"), the External Lending Mandate ("ELM") and the European Fund for Sustainable Development Plus ("EFSD+"), which is part of the 'Neighbourhood, Development and International Cooperation Instrument - Global Europe'.

- Aggregation across the budgetary guarantee programmes is traditionally difficult given that the four guarantee programmes were set up in different time periods and for different types of investments and they also span different Multiannual Financial Framework ("MFF") periods. However, the following general observations can be made: The four budgetary guarantee programmes have a very different history. ELM came into existence in 1977, EFSI was set up in 2015, EFSD was created in 2017 (with the first guarantee agreement signed at the end of 2018) and EFSD+ is only starting now. As a result, each budgetary guarantee is now at a different stage of implementation, ELM has a long track record and also EFSI is well advanced in its implementation. At the same time, the investment phase of EFSD and in particular of EFSD+ have only started very recently.

- The four budgetary guarantee programmes vary in their set-up (e.g. different products, different implementation methods (one exclusive implementing partner vs open architecture with multiple implementing partners). ELM offers two types of products (mainly direct sovereign lending and to a certain extent also private lending) and is operated on an exclusive basis by the EIB. EFSI is structured in two windows (an infrastructure window ("IIW") and an SME window with then several different products under both windows) and is also using one exclusive implementing partner namely the EIB Group. In terms of having multiple implementing partners, EFSD has been a pioneer (*pro memoria*: guarantee agreements have been signed with ten counterparts) where each guarantee agreement covers a different financial product. New budgetary guarantees such as InvestEU and EFSD+ built on this experience and have similar features (a larger number of implementing partners ("open architecture") and a relatively broad variety of products).

- The four guarantee programmes have a different scope. EFSI helps to overcome investment gaps within the European Union and is part of the Commission's internal policies. At the same time, ELM and EFSD (and going forward EFSD+) are part of the European Union's external policies (with ELM mainly focusing on sovereign counterparts and EFSD on private counterparts).

[1] The first InvestEU guarantee agreement was signed in 2022.

- This different focus to a large extent explains why the different guarantee programmes have different risk profiles, which logically also implies that they use different provisioning rates. EFSI (with a maximum guarantee amount of EUR 26 billion) has a target provisioning rate of 35%, while the respective figures for EFSD (guaranteed amount EUR 1.55 billion) and ELM (guaranteed amount EUR 70.87 billion)[2] are 50% and 9%. For the sake of completeness, it should also be recalled that for historical reasons the ELM provisioning process is slightly different than that of EFSI and EFSD. The external action compartment of the Common Provisioning Fund ("CPF") (the former Guarantee Fund for External Actions or GFEA), which holds the provisions for ELM (and also for Macro Financial Assistance (MFA) and non-EU Euratom loans) rather acts as a liquidity buffer for guarantee calls.

- As at the end of 2021, the total risk for the EU budget for the four budgetary guarantees (based on operations signed) amounted to EUR 58.6 billion (EUR 24.7 billion for EFSI, EUR 0.6 billion EUR for EFSD, EUR 0.2 billion for EFSD+ and EUR 33 billion for ELM).

- As a result of these budgetary guarantee programmes, the following results have already been achieved:

  - EFSI supported 761,748 final recipients and mobilised financing to final recipients of more than EUR 370.3 billion. This in turn led to total investments of EUR 524.3 billion.

  - Under EFSD and EFSD+, EUR 735.2 million of disbursed operations have been recorded and both programmes also played a crucial role in the financing of the COVAX programme which is helping to bring Covid-19 vaccines to developing countries.

  - The ELM programme allowed the EIB to disburse loans for in total EUR 62.2 billion (which excludes activities in countries which meanwhile have become EU Member States). The ELM supported 507 final recipients and estimates are that ELM has mobilised final recipients' investments of EUR 124.4 billion (reflecting the EIB's rule of co-financing up to 50% of total project costs and again excluding activities in countries which meanwhile have become EU Member States).

The **second chapter** focuses on the financial aspects for the period 1 January 2021 to 31 December 2021 of the Common Provisioning Fund ("CPF") with details on the different compartments (EFSI, InvestEU, EFSD and the GFEA). *Pro memoria*, the CPF functions as a

[2] This amount is calculated as a sum of the respective external mandates' authorised ceilings multiplied by the corresponding guarantee rates (i.e., for each mandate, the thickness of the portfolio-level first loss cover provided by the EU).

single portfolio and in that regard combines provisions for the different budgetary guarantee programmes and financial assistance programmes.

The CPF started operations on 1 January 2021 when the EFSI guarantee fund portfolio was transferred to the CPF. The first endowment of the CPF from MFF 2021-2027 resources took place on 30 June 2021 when the first instalment of InvestEU provisioning was made. Then on 1 August 2021, also the provisions of two other important guarantee programmes (i.e. the EFSD and the GFEA) were transferred following the entry into force of the NDICI Regulation. In 2021, the CPF received in total EUR 12.4 billion in net contributions. As of 31 December 2021, the market value (i.e. the "net assets") of the CPF amounted to EUR 12.3 billion. The difference of EUR 133.3 million can be broken down into EUR 132.million of unrealized losses (due to market value changes of the portfolio assets) and EUR 372,122 of realised losses (due to sale proceeds at redemption (incl. average costs)). The asset management aspects of the CPF are described with a large degree of detail in the CPF annual report which was adopted on the 16 May 2022[3].

The **third chapter** assesses the EU budget's contingent liabilities arising from budgetary guarantees and financial assistance programmes (i.e. the Macro Financial Assistance ("MFA") loans and the non-EU Euratom loans). The assessment is based on mathematical/statistical "credit risk models", which are an important tool to estimate future losses resulting from budgetary guarantees and expert judgment and takes into account a number of qualitative and quantitative elements such as payment defaults, impairment assessment of loans, diversification effects etc.

In this Article 41(5) report, each budgetary guarantee and financial assistance programme will be analysed from a budgetary, financial and operational perspective. The analysis of the sustainability of the individual contingent liabilities generated by budgetary guarantees and financial assistance concludes that - as of 31 December 2021 - no provisioning issues have been identified.

[3] COM/2022/213 final, Report from the Commission to the European Parliament and Council on the common provisioning fund in 2021.

INTRODUCTION

This is the second edition of the report which the Commission has to produce under Article 41(5) of the 2018 Financial Regulation ("FR")[4]. This article requires the Commission to attach to the draft annual budget a staff working document with:

- information on each budgetary guarantee granted by the Union;
- information on the Common Provisioning Fund ("CPF");
- an assessment of the sustainability of contingent liabilities borne by the budget arising from budgetary guarantees and financial assistance.

The Article 41(5) report follows this structure and has a dedicated section on each of the three topics mentioned above.

As for the section on contingent liabilities, the Article 41(5) report will assess the budgetary sustainability of the Union's individual guarantee programmes and financial assistance programmes. A more consolidated aggregate assessment of the Union's contingent exposures will be provided in the (annual) Article 250 FR report, which this year will be published for the second time. In the Article 250 FR report, the Commission is obliged to provide information to the European Parliament and to the Council on budgetary guarantees, the Common Provisioning Fund and contingent liabilities arising from budgetary guarantees or financial assistance.

In the paragraphs below, a brief account of the content of each section will be provided. In particular, it will be explained how the different requirements of Article 41(5) FR are covered in the different sections.

1. Budgetary Guarantees

This section will cover the entire implementation period from the launch of each given budgetary guarantee until the 31st December of the reference year (i.e. for this year's report, the reference year is 2021). Concretely, this section shall cover four budgetary guarantees, one of which is part of the Commission's internal policy actions (EFSI), while the other three fall under the Commission's external policy actions (EFSD, EFSD+ and ELM). Please note that under EFSD+, only one operation was signed and disbursed.

At the end of the reporting period, InvestEU had no signed operations yet, which also implies that this year's Article 41(5) FR report cannot in a meaningful manner cover InvestEU. Obviously future versions of this report will contain the same information for InvestEU as for the other guarantee programmes. As per the relevant provisions of Article 41(5) FR, each

[4] Regulation (EU, Euratom) 2018/1046 of 18 July 2018 on the financial rules applicable to the general budget of the Union repealing Regulation (EC, Euratom) No 966/2012.

individual budgetary will be analysed and the results of that analysis will be summarised in the three following parts:

- Part A: Description;
- Part B: Operational performance;
- Part C: Financial Information.

Part A. Description

Items of Article 41(5) covered:	– (a): a reference to the budgetary guarantee and its basic act, together with a general description of the budgetary guarantee, its impact on the financial liabilities of the budget, its duration and the added value of Union support; – (b): the counterparts for the budgetary guarantee, including any issues relating to the application of Article 155(2).

Part B. Operational performance

Items of Article 41(5) covered:	– (c): the budgetary guarantee's contribution to the achievement of the objectives of the budgetary guarantee, as measured by the indicators established, including, where applicable, the geographical diversification and the mobilisation of private sector resources; – (d): information on operations covered by the budgetary guarantee on an aggregated basis by sectors, countries and instruments, including, where applicable, portfolios and support combined with other Union actions; – (e): the amount transferred to recipients as well as an assessment of the leverage effect achieved by the projects supported under the budgetary guarantee.

Part C. Financial information

Items of Article 41(5) covered:	– (d): information on operations covered by the budgetary guarantee on an aggregated basis by sectors, countries and instruments, including, where applicable, portfolios and support combined with other Union actions; – (f): information aggregated on the same basis as referred to in point (d) on calls on the budgetary guarantee, losses, returns, amounts recovered and any other payments received.

2. Common Provisioning Fund

Article 212 of the Financial Regulation establishes the Common Provisioning Fund to hold the provisions made to cover the financial liabilities arising from budgetary guarantees and financial assistance programmes. With its Communication dated 26 February 2021[5], the Commission informed that the CPF would enter into force in 2021, along with the new 2021-2027 MFF.

Therefore, this year's report contains a full section on the CPF, focusing on the financial aspects related to the EFSI, InvestEU, EFSD and the GFEA compartments. It should be recalled however that on 16 May 2022, the Commission already published the first annual report of the CPF which already includes a lot of information on the CPF, in particular on its asset management aspects.

Items of Article 41(5) covered:	– (g): information about the financial management, the performance and the risk of the common provisioning fund at the end of the preceding calendar year; – (h): the effective provisioning rate of the common provisioning fund and, where applicable, the subsequent operations in accordance with Article 213(4); – (i): the financial flows in the common provisioning fund during the preceding calendar year as well as the significant transactions and any relevant information on the financial risk exposure of the Union.

3. Contingent Liabilities

This section of the report will analyse the sustainability of **individual** contingent liabilities generated by budgetary guarantees and financial assistance. As already explained above, a **consolidated** analysis will be made in the Commission's Article 250 report.

[5] COM(2021)88 final, Communication from the Commission to the European Parliament and Council on the entry into operation of the Common Provisioning Fund, 26.2.2021.

Items of Article 41(5) covered:	– (j): Pursuant to Article 210(3) FR, an assessment of the sustainability of contingent liabilities borne by the budget arising from budgetary guarantees or financial assistance.

1. Budgetary Guarantees

1.1 European Fund for Strategic Investments

1.1.1 Description

Identification/Reference to the basic act		
Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments (OJ L 169, 1.7.2015, p. 1).		
Maximum amount of budgetary guarantee (in EUR)	**of which signed with counterparts**	**of which effective at 31/12/2021**
26,000,000,000	26,000,000,000	26,000,000,000
of which ceiling authorised in the legal basis (in EUR)	**Counterparts**	
26,000,000,000	European Investment Bank European Investment Fund	
of which from external contributions (in EUR)		
0		

Budget Lines					
Article 02 02 99 12 (as from 2021) - Completion of the European Fund for Strategic Investments (EFSI)					
	Cumulative to 2021	**2022**	**2023**	**2024-2027**	**Total**
Budgetary commitment appropriations (in EUR)	9,262,920,135	129,999,633	128,000,000	p.m.	9,520,919,768
of which from voted budget	8,425,000,367	-367	p.m.	p.m.	8,425,000,000
of which from internal assigned revenues	837,919,768	130,000,000	128,000,000	p.m.	1,095,919,768
of which from external assigned revenues	N/A	N/A	N/A	N/A	0
Budgetary payment appropriations (in EUR)	8,769,200,873	623,718,895	128,000,000	p.m	9,520,919,768
of which from voted budget	8,037,984,621	387,015,379	p.m.	p.m.	8,425,000,000

of which from internal assigned revenues	731,216,252	236,703,516	128,000,000	p.m	1,095,919,768
of which from external assigned revenues	N/A	N/A	N/A	N/A	0

General description

The European Fund for Strategic Investments ("EFSI") aimed to boost long-term economic growth and competitiveness in the European Union ("EU") and to help overcome the EU investment gap which existed at the time of its creation. The European Commission and the European Investment Bank Group launched EFSI together with the purpose to mobilise private investment.

EFSI was established by Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 and extended and enhanced by Regulation (EU) 2017/2396 of the European Parliament and of the Council of 13 December 2017 (the EFSI 2.0 Regulation). EFSI is one of the three pillars of the "Investment Plan for Europe" that aimed to revive investment in strategic projects around the continent to ensure that money would reach the real economy. With the EFSI budgetary guarantee, the EIB Group is providing funding for economically viable projects, especially for projects with a higher risk profile than usual for the EIB. The focus of EFSI is on sectors of key importance for the European economy, including:

- Strategic infrastructure including digital, transport and energy;
- Education, research, development and innovation;
- Renewable energy and resource efficiency;
- Support for small and mid-sized businesses.

EFSI has two windows:

- the Infrastructure and Innovation Window ("IIW"), managed by the EIB and comprising of 4 portfolios, and;
- the SME Window ("SMEW"), managed by the EIF and comprising of 11 products.

Implementation cycle

EFSI is a EUR 26 billion budgetary guarantee from the EU budget, complemented by a EUR 7.5 billion allocation of the EIB's own resources. The total amount of EUR 33.5 billion aimed to unlock additional investment of at least EUR 500 billion as of 31 December 2020.

In 2021, EFSI continued to make progress towards its objectives, in particular on the climate target of 40% (i.e. 40% of EFSI infrastructure and innovation projects will have to contribute to climate action in line with the Paris Agreement) but also on the amount of investment mobilised and on the impact on jobs and growth. As of 31 December 2021, the EIB Group had **approved** 99.3 billion of EFSI financing for a total investment value of EUR 524.3

billion (which is higher than the (end-2020) target of EUR 500 billion). The total amount of **signed** EFSI financing was EUR 86.9 billion, good for a total investment value of EUR 492.1 billion.

To alleviate the impact of the Covid-19 pandemic on the economy, the available resources under the EFSI SMEW were re-allocated to other existing SMEW products. Based on the EFSI resources unlocked like this, the EIF provided guarantees to financial intermediaries worth EUR 2.7 billion, which then made available EUR 14.7 billion in financing for businesses, including micro and social enterprises as well as small and medium size enterprises ("SMEs") in the cultural and creative sectors. Moreover, in order to provide support to final recipients as fast as possible, the EFSI Steering Board simplified the approval process for specific Covid-19 operations.

For debt-type operations, the EFSI Guarantee can be activated to cover guarantee calls, restructuring losses and recovery costs. For equity-type operations, the EFSI Guarantee covers value adjustments, funding costs and recovery costs. So far, guarantee calls on a cumulative basis amount to EUR 162.3 million but due to the current economic situation, it could be expected that the number and volume of future guarantee calls from hereon will increase.

Implementation arrangements

EFSI is a budgetary guarantee implemented under indirect management by the EIB Group. On 22 July 2015, the Commission and the EIB Group signed a guarantee agreement on the management of EFSI and on the granting of the EU Guarantee.

In order to cover the budgetary risks relating to the EU guarantee, the EFSI Guarantee Fund was established. As of 1 January 2021, the assets of the EFSI Guarantee Fund were transferred to the EFSI compartment of the Common Provisioning Fund. The provisioning rate of the EFSI guarantee is set at 35% of the total amount of the obligations under the EU Guarantee.

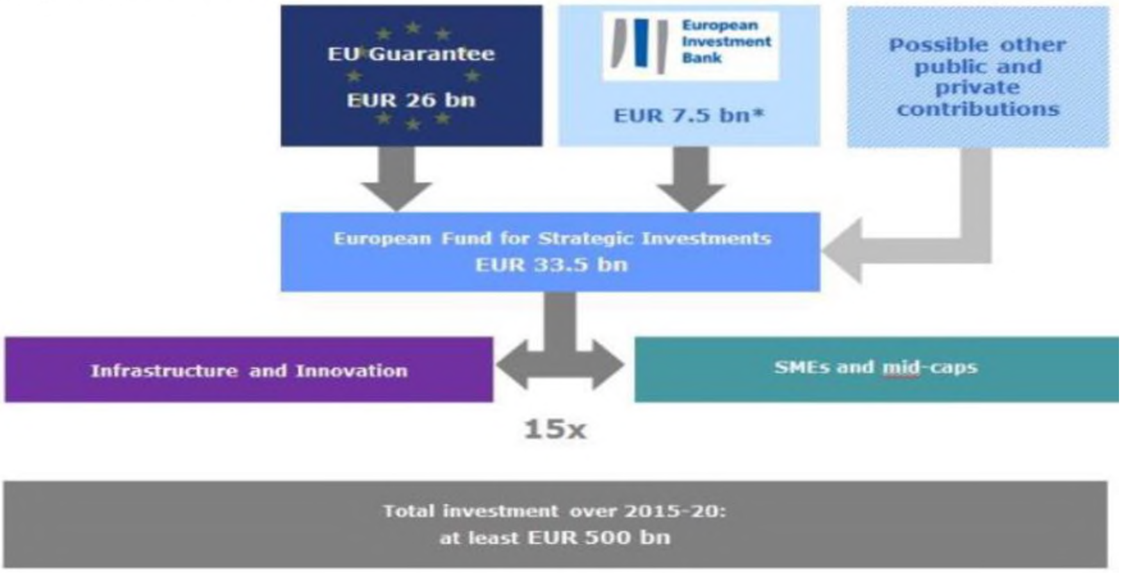
As of 31 December 2021, the cumulative provisioning committed amounted to EUR 9.26 billion, out of which EUR 8.42 billion from the EU budget and EUR 838 million from assigned revenues. Out of this, EUR 8.77 billion has been paid already (EUR 8.038 billion from the EU budget and EUR 731 million from assigned revenues)[6].

The resources of the Common Provisioning Fund are directly managed by the Commission and invested in accordance with the principle of sound financial management and following

[6] The difference between the figures reported in this paragraph are outstanding commitments.

appropriate prudential rules. As of 31 December 2021, the total assets of the EFSI compartment stood at EUR 8.60 billion[7].

Implementation diagram**



** Contributions from EIB own resources.*

***As of December 2021 EFSI financing approved by the EIB Group implied a total investment value of EUR 524.3 billion, thus exceeding the EUR 500 billion end-2020 target.*

Duration

EFSI was set up in July 2015 and extended in 2017 (by the EFSI 2.0 Regulation). The investment period for approval of operations ended on 31 December 2020, but contracts between the EIB/EIF and the final recipient or financial intermediary can be signed until 31 December 2022.

Given the long-term nature of support under EFSI, the EU guarantee coverage and operational monitoring will continue until all exposures and liabilities in relation to EFSI operations have been fully discharged.

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7 This is composed of the Net Asset Value as at 31/12/2021 (compartment EFSI as reported in the audited Financial Statements) of EUR 8.53 billion and the cash buffer of EUR 73 million held at the central treasury. It is lower than the cash actually paid into the EFSI Guarantee Fund compartment because of the negative performance of the CPF in 2021.

Added Value

When EFSI was created, the EU had been suffering – since the start of the financial crisis in 2008 - from low investment levels. A collective and coordinated effort at European level was needed to put Europe on the path of economic recovery. The “Investment Plan for Europe” focused on making smarter use of new and existing financial resources (through EFSI), providing visibility and technical assistance to investment projects (through the European Investment Project Portal and the European Investment Advisory Hub) and removing obstacles to investment.

EFSI is the key component of the Investment Plan. It aims to overcome market failures by addressing market gaps and mobilising private investment.

Action at Union level allows for economies of scale: funds of the Union budget are combined with financing of the EIB Group. Together, they catalyse private investment across the Union, making best use of existing expertise and knowledge. The multiplying effect and the impact on the ground is thus much higher than what could be achieved by an investment offensive in a single Member State or a group of Member States. The demand-driven nature of the instrument (i.e. no country-specific or sectorial project allocation) provides for greater attractiveness for investors and lower aggregated risks. The investments supported under EFSI contribute to the Union programmes and policies and the targets and objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth, quality job creation and economic, social and territorial cohesion.

Application of Article 155.2 FR

The EFSI Agreement foresees that EIB and EIF should apply their respective rules, policies and procedures, including the EIB Group Non Cooperative Jurisdictions (“NCJ”) Policy and the EIB Group Anti-Money Laundering and Combating Financing of Terrorism Framework, to address the requirements to avoid money laundering, terrorism financing, tax avoidance, tax fraud, tax evasion contained (cf Article 22 of the EFSI Regulation) and to reflect the prohibition to enter into new or renewed operations with entities incorporated or established in jurisdictions listed under the relevant Union policy on non-cooperative jurisdictions or that are identified as high-risk third countries.

None of the EFSI Guaranteed Operations signed were entered into with Financial Intermediaries incorporated in non-cooperative jurisdictions listed under the relevant Union policy.

Moreover, additional information on the compliance with Article 155.2 (b) Financial Regulation is reported in the annual EIB EFSI report to the European Parliament and the Council.

Support combined with other Union actions

As of 31 December 2021, 60 EFSI operations benefited from EU contributions other than EFSI, an increase of some 3% compared to end-2020. Of these operations, 53 are under the IIW and 7 are under the SMEW. More details are available in the table below:

	EFSI operations co-financed with ESIF/EU funds	
	Number	Signed Amount (EUR m)
IIW	53	4,824.95
SMEW	7	132.07
Aggregated	60	4,957.03

Under SMEW, operations relate to investments into equity funds from European Structural and Investment Funds ("ESIF") and EFSI. With respect to the Combinations product, for the portfolio for ESIF-EAFRD Greece, Portugal and Nouvelle Aquitaine, the EFSI ECP contribution will be made available to cover defaulted amounts after the first loss risk cover has been entirely used-up, as further specified in the relevant ECP mandate documentation. The EFSI top-up (if and when activated) will account for a component of up to EUR 20 million, EUR 15 million and EUR 6 million respectively.

In addition to combinations with ESIF, there are five products under the SMEW where EFSI is combined with support from financial instruments from other programmes (COSME, InnovFin, EaSI and CCS).

1.1.2 Operational Performance

EFSI has significantly increased the volume of financing and investment operations in priority areas of the European Union. As of 31 December 2021, EFSI enabled the EIB Group to sign 1,498 financing and investment operations for a total amount of EUR 86.9 billion. Out of this amount EUR 58 billion was already disbursed by EIB Group either to financial intermediaries or to final recipients (in the case of direct operations). This then translates into significant investments by final recipients.

At the end of 2021 more than 760,000 final recipients in different economic sectors had received EFSI support. Over EUR 370.3 billion financing was transferred to final recipients for total investments of EUR 492.1 billion.

EFSI was designed with an investment target and an associated target multiplier of 15. The EUR 500 billion target of investment mobilised is to be delivered based on an overall combined contribution under EFSI from the EU guarantee and the EIB's own resources of EUR 33.5 billion. As of 31 December 2021, the multiplier was 15.74, slightly above the target of 15.

The leverage and multiplier ratios calculated as provided in the below table do not take into account the fact that the EFSI guarantee is provisioned at a rate of 35%.

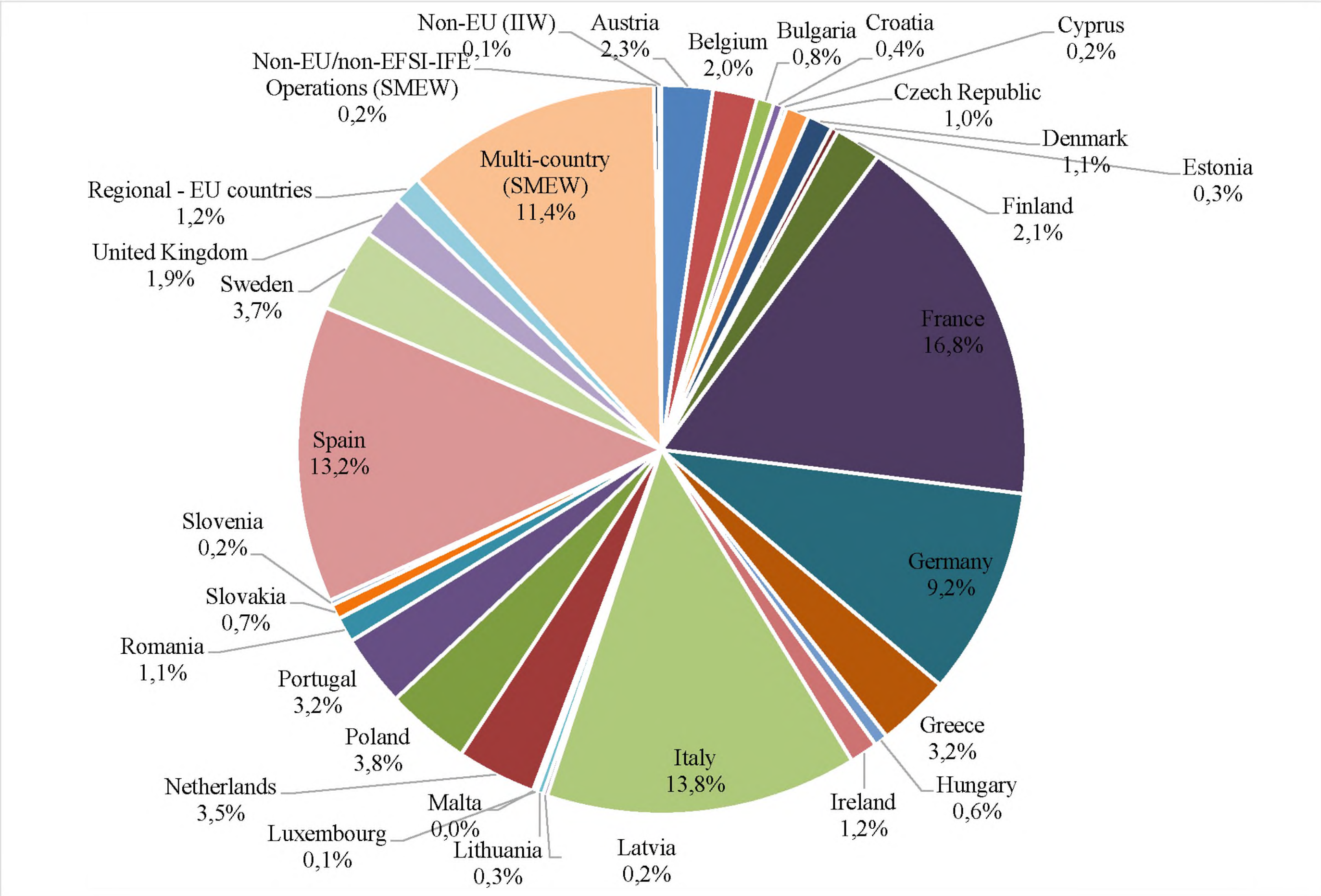
The following table summarizes the key operational figures presented above:

Key Figures (as at 31/12/2021)

Total amount of operations signed by counterparts (in EUR)	86,867,745,307
Total amount of operations disbursed (in EUR)	58,009,308,776
Amount transferred to final recipients (in EUR)	370,327,251,713
Number of final recipients	761,748
Investments made by final recipients	492,057,974,159
Private sector resources mobilised	355,021,548,988
Leverage (ratio)	11.88
Multiplier effect (ratio)	15.74

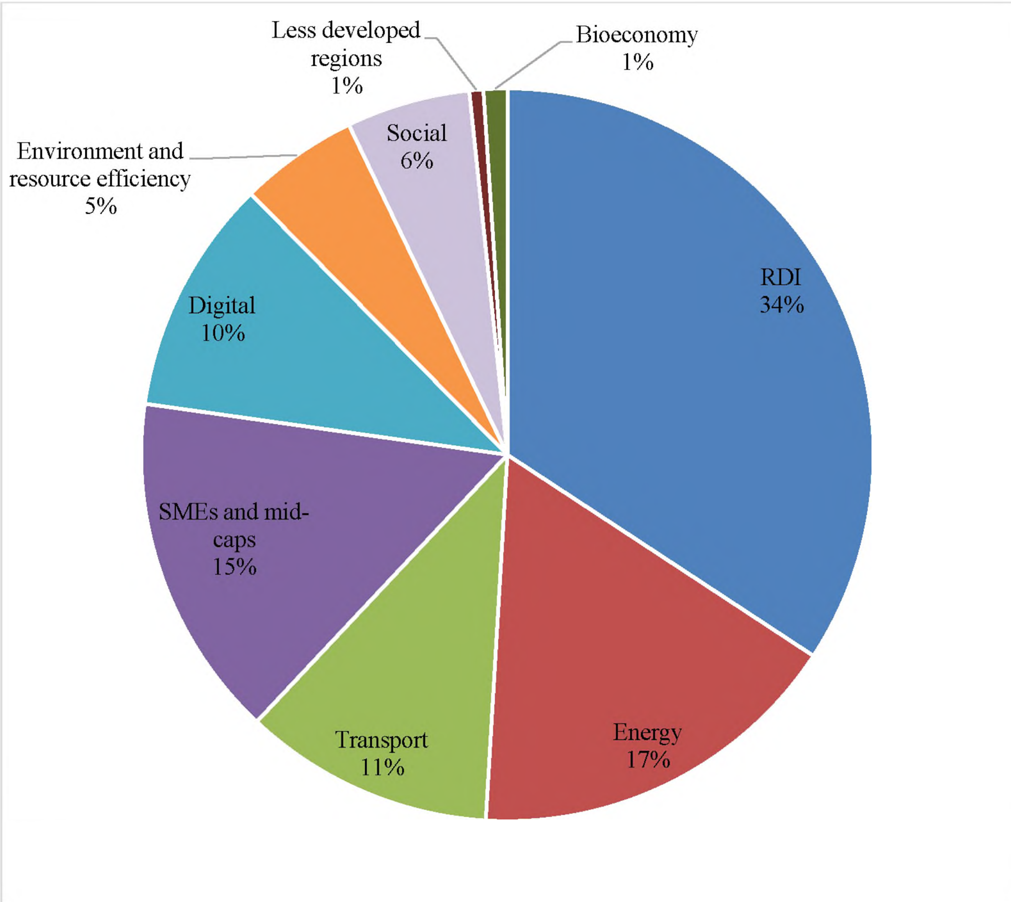
Geographical diversification

As of 31 December 2021, operations were signed in the 27 EU Member States and the UK, with the largest amounts signed in France (EUR 14.6 billion), Italy (EUR 12 billion), Spain (EUR 11.5 billion), Germany (EUR 8 billion), Poland, Sweden and the Netherlands (circa EUR 3 billion each). However, in terms of the signed amounts relative to GDP, the top beneficiary countries were Greece, Portugal, Bulgaria and Spain.



Sectoral diversification

As of 31 December 2021, operations were signed across 9 different sectors for a total amount of EUR 86.9 billion. The largest signed amounts were in Research Development & Innovation ("RDI") (signed operations for EUR 30 billion), Energy (signed operations for EUR 14.5 billion) and SME and mid-caps (signed operations signed for EUR 13.2 billion).



Contribution to the achievement of the EFSI objectives

The objective of EFSI to mobilise EUR 500 billion investments by 2021 has been achieved and exceeded (i.e. EUR 524.3 billion investments in approved operations at the end of 2021). This amount of investment is mobilised through 1513 approved operations implemented in 28 countries. In total 43.6% of EFSI financing in the Infrastructure and Innovation Window supports project components that contribute to climate action.

1.1.3 Financial Information

Financial information at the level of budgetary guarantee

The available guarantee under EFSI, after deducting guarantee calls and other expenses covered by the guarantee, amounted to EUR 25.8 billion at the end of 2021. It covers the risk related to the operations signed by the EIB Group up to EUR 24.7 billion (EUR 18.4 billion for the IIW and EUR 6.3 billion for SME window). The risk at the level of outstanding EFSI operations disbursed by the EIB Group, (or by financial intermediaries in case of bank guarantee products) totals EUR 20.3 billion as of 31 December 2021 (EUR 16.8 billion for the IIW and EUR 3.5 billion for SME window).

all figures in EUR

	EU contingent and financial liability	
	31-12-2021	31-12-2020
Available guarantee signed with counterparts	25,825,743,277	25,833,271,065
EU risk for operations signed by counterparts	24,730,243,147	24,121,520,893
EU risk for operations signed by counterparts and disbursed	20,358,056,678	18,880,064,873

Under the EFSI Agreement, the European Union is entitled to a remuneration for its guarantee. Up to end 2021, the EU has received EUR 1.16 billion (out of which EUR 454 million in 2021) of revenues from the EIB, mainly from IIW debt products, where the risk-related revenues are shared between the European Union and the EIB (commensurate to the risk taken). The revenues have been partially used to cover the guarantee calls, fees and other expenses incurred under the guarantee under EFSI, while the remaining part has been recovered to the European Union budget as internal assigned revenues and used for the constitution of the EFSI compartment of the CPF.

all figures in EUR

	EU guarantee revenues	
	2021	Cumulative until 31-12-2021
EU guarantee revenues	453,955,207	1,159,146,172

To date, the guarantee covered guarantee calls made by the EIB Group of EUR 162 million, of which EUR 91 million related to five defaulted operations from IIW portfolios and EUR 71 million related to negative value adjustments of the IIW and SMEW equity and/or quasi-equity operations (decrease in the fair value of investments). Would the value of those investments increase in the future, the amount called would be reimbursed to the European Union.

With respect to the defaulted operations, the EIB undertakes recovery proceedings on behalf of the European Union for as long as possible recovery proceedings are expected to lead to recoveries which exceed the costs of the recovery proceedings. The recoveries received so far amounted to EUR 1.5 million.

all figures in EUR

	Guarantee calls and recoveries	
	2021	**Cumulative until 31-12-2021**
Guarantee calls	2,871,584	162,290,813
Recoveries	0	1,555,897
Net guarantee calls	2,871,584	160,734,915

The cumulative fees due to the EIF for the implementation of the products under the SME window total EUR 231.4 million, which were mainly covered by the revenues due to the European Union under the guarantee. In addition, the EU has incurred EUR 18 million of other expenses, of which EUR 8 million related to EIB funding costs (in relation to the amounts disbursed by the EIB to the EIF for the equity products) and EUR 5 million - to the recovery costs.

all figures in EUR

	Expenses	
	2021	**Cumulative until 31-12-2021**
Fees to counterparts	56,129,686	231,403,872
Other expenses (recovery costs, funding costs, other)	6,767,492	18,194,622

The following table presents detailed information at the level of each EFSI financial product.

Financial information at the level of product

all figures in EUR as of 31/12/2021

	IIW Debt Standard	IIW Debt Hybrid	IIW Equity Standard	IIW Equity NPB
Overview				
Effective	Yes	Yes	Yes	Yes
Counterpart	European Investment Bank	European Investment Bank	European Investment Bank	European Investment Bank
Description	Products and counterparts include - direct lending to public sector, direct lending to corporates and project finance, intermediated lending, credit enhancement for project finance, risk-sharing (partial delegation/de-linked), hybrid debt for regulated utilities. The EU covers 100% of the first loss piece (FLP), whereas the EIB retain the residual risk tranche (RRT).	Products and counterparts include - risk-sharing (full delegation), debt funds, and structured products (ABS/loan substitutes/credit enhancements) The EU covers 100% of the FLP, whereas the EIB retain the RRT.	Products and counterparts include – infrastructure and climate equity funds, direct equity, co-investment with equity funds, debt funds, captive funds and/or Investment Platforms not sponsored by NPBs. The EU and the EIB cover pari passu (50%) in each equity-type operation included in the IIW Equity Standard Portfolio.	Products and counterparts include – captive funds and/or Investment Platforms sponsored by NPBs, equity risk sharing with NPB involvement. The EU covers 95% of the FLP, whereas the EIB retain 5% of the FLP and the RRT.
Maximum guarantee signed with counterpart	13,240,000,000	2,000,000,000	3,500,000,000	510,000,000
Operation type	Debt, Guarantee	Debt, Guarantee	Equity	Equity
Risk-sharing structure	FLP - 100% (EU guarantee)	FLP - 100% (EU guarantee)	pari passu - 50% (EU Guarantee) & 50% (EIB)	FLP - 95% (EU Guarantee) & 5% (EIB)
Cumulative operations signed by counterpart	47,043,987,597	6,011,267,134	6,332,917,256	454,960,812
Cumulative operations disbursed by counterpart	34,718,698,582	5,557,831,601	3,632,705,376	135,204,892
EU contingent and financial liability				
Available guarantee signed with counterpart	13,157,382,728	2,000,000,000	3,418,684,294	504,654,085
EU risk for operations signed by counterpart	13,157,382,728	2,000,000,000	2,851,813,513	427,080,910
EU risk for operations signed by counterpart and disbursed	13,157,382,728	2,000,000,000	1,558,004,798	121,951,946
Cumulative guarantee calls and recoveries				
Cumulative guarantee calls	78,499,551	0	73,720,982	5,093,073
Cumulative recoveries	1,555,897	0	0	0
Cumulative net guarantee calls	76,943,653	0	73,720,982	5,093,073
Notes	The EU guarantee was called to cover one defaulted operation in 2018. In addition, some recovery costs for debt operations were covered. Regarding the defaulted operation, EUR 18,6 million were recovered initially; thus reducing the amount of the guarantee call. Subsequently, EUR 1.6 million was recovered. The operation is still reported as a subrogated.		The EU guarantee was called to cover four defaulted operations (one in 2019 and three in 2021). In addition, it covered value adjustments, funding costs and recovery costs for equity operations.	The EU guarantee was called to cover value adjustments and funding costs for equity NPB operations.
Cumulative expenses				
Fees to counterpart	0	0	0	0
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	5,673,619	0	7,594,724	252,842

all figures in EUR as of 31/12/2021

	SMEW InnovFin SMEG	SMEW COSME LGF	SMEW EaSI	SMEW CCS
Overview				
Effective	Yes	Yes	Yes	Yes
Counterpart	European Investment Fund	European Investment Fund	European Investment Fund	European Investment Fund
Description	The product is delivered in the form of a second loss enhancement of a portfolio of uncapped guarantees supporting lending provided by financial intermediaries to RDI-intensive SMEs and Small Mid-caps. The EU provides the FLP under the Horizon 2020 (InnovFin) financial instrument and, together with EFSI, provide a Junior Risk Tranche of 20%. The EIF takes Senior Risk Tranche of 80%. EFSI credit enhancement was introduced to increase the size of the Horizon 2020 debt financial instrument.	The product is in form of a second loss enhancement provided by EIB (guaranteed by EFSI) of a portfolio of capped guarantees supporting lending provided by financial intermediaries to riskier SMEs.The EU COSME financial instrument provides the FLP. EFSI credit enhancement was introduced to increase the size of the COSME debt financial instrument.	The instrument is provided in the form of capped guarantees covering portfolios of new financing made available by financial intermediaries for microfinance and to social enterprises. EU EaSI financial instrument and EFSI provide the FLP and SLP respectively. EFSI credit enhancement increased the size of the EaSI financial instrument.	The CCS aims at increasing the guagantee capacity in order to enhance financing provided by financial intermediaries to eligible final recipients in the cultural and creative sectors. EU CCS financial instrument and EFSI provide the FLP and SLP respectively.
Maximum guarantee signed with counterpart	1,400,000,000	1,484,000,000	300,000,000	130,000,000
Operation type	Guarantee	Guarantee	Guarantee	Guarantee
Risk-sharing structure	SLP	SLP	SLP	SLP
Cumulative operations signed by counterpart	12,831,149,247	2,579,454,426	413,619,134	242,535,229
Cumulative operations disbursed by counterpart	9,814,714,193	1,913,715,181	254,602,733	131,321,054
EU contingent and financial liability				
Available guarantee signed with counterpart	1,400,000,000	1,484,000,000	300,000,000	130,000,000
EU risk for operations signed by counterpart	1,381,438,122	1,337,281,806	295,588,406	95,813,139
EU risk for operations signed by counterpart and disbursed	1,381,438,122	701,951,692	136,572,005	275,299
Cumulative guarantee calls and recoveries				
Cumulative guarantee calls	0	0	0	0
Cumulative recoveries	0	0	0	0
Cumulative net guarantee calls	0	0	0	0
Notes				
Cumulative expenses				
Fees to counterpart	44,425,000	47,430,000	9,290,000	5,235,500
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	0	0	0	0

all figures in EUR as of 31/12/2021

	SMEW Equity Sub-window 1	SMEW Equity Sub-window 2	SMEW PC Sub-window 1	SMEW PC Sub-window 2
Overview				
Effective	Yes	Yes	Yes	No
Counterpart	European Investment Fund	European Investment Fund	European Investment Fund	European Investment Fund
Description	The Product aims at enhancing financing provided by financial intermediaries to SMEs, Small Mid-caps, Social Sector Organizations and Social Enterprise in growth stage. The risk is shared on a pari passu basis with EIB providing 95% financing (guaranteed by EFSI) and the EIF providing 5% of financing on its own risk.	The Product aims at enhancing financing provided by financial intermediaries to SMEs, Small Mid-caps, Social Sector Organizations and Social Enterprise in early stage. EU covers the Junior Tranche through InnovFIN Equity financial instrument which provides 45% of financing, whereas EFSI (26.5% of financing provided by EIB) and the European Investment Fund (28.5%) cover Senior Tranche.	The purpose of the SMEW PC Product is to increase the volume and diversity of alternative debt financing available to European SMEs and Small Mid-Caps. The SMEW PC Product aims at contributing to the policy objective of a Capital Markets Union. Sub-window 1 is in a form of equity. EFSI covers the FLP (30% of financing provided by EIB) and the EIF the SLP (70% of financing).	Sub-window 2 is a guarantee provided to investors into debt funds. EFSI covers first loss piece (30%) and the European Investment Fund second loss piece (70%). With the 6th amendment of EFSI Agreement of April 2020, the allocations for sub-window 2 were set at 0 EUR, meaning that the product is not active as of 31 December 2020.
Maximum guarantee signed with counterpart	2,320,000,000	430,000,000	250,000,000	0
Operation type	Equity	Equity	Equity	Guarantee
Risk-sharing structure	pari-passu	Pari-passu with Counterpart in Senior tranche	FLP	FLP
Cumulative operations signed by counterpart	2,256,273,462	1,587,816,156	751,650,000	0
Cumulative operations disbursed by counterpart	1,072,120,385	419,828,545	225,449,516	0
EU contingent and financial liability				
Available guarantee signed with counterpart	2,315,022,171	430,000,000	250,000,000	0
EU risk for operations signed by counterpart	2,221,313,463	419,828,545	233,934,902	0
EU risk for operations signed by counterpart and disbursed	852,209,139	164,456,339	233,934,902	0
Cumulative guarantee calls and recoveries				
Cumulative guarantee calls	4,977,207	0	0	0
Cumulative recoveries	0	0	0	0
Cumulative net guarantee calls	4,977,207	0	0	0
Cumulative expenses				
Fees to counterpart	100,659,699		14,024,790	0
Other expenses (recovery costs, funding costs, other) cumulative over all mandates			0	0

all figures in EUR as of 31/12/2021

	SMEW ECP	SMEW ESCALAR	SMEW Skill & Education
Overview			
Effective	Yes	Yes	Yes
Counterpart	European Investment Fund	European Investment Fund	European Investment Fund
Description	The EFSI Combination Product is a dedicated financial instrument that supports capped and uncapped portfolio guarantee instruments in the agriculture sector, and could be adapted to enhancing access to finance for final recipients in support of other specific policy objectives . The product combines resources of EFSI with Member State or Managing Authority resources coming from either structural funds or investments funds, national resources, regional resources, or any combination thereof. Resources other than EFSI take first loss piece, and EFSI takes second loss piece in the risk sharing structure.	The purpose of the product is to improve the availability of financing to European Scale-ups. It is a flexible equity instrument whereby the ultimate objective is to increase the attractiveness of the asset class and catalyse private money flows towards the asset class It is financed by EFSI which invests in or alongside other equity funds in a share class that is characterised by lower risk and lower reward profile.	The SMEW Skills and Education Product takes the form of a guarantee or a counterguarantee extended to private or public financial intermediaries, which aims at providing finance for the benefit of the knowledge economy, education, training and skills transformation to facilitate a new wave of innovation and productivity. EFSI provides first loss piece and is the only risk taker.
Maximum guarantee signed with counterpart	86,000,000	300,000,000	50,000,000
Operation type	Guarantee	Equity	Guarantee
Risk-sharing structure	SLP	share class with lower risk-return profile	FLP
Cumulative operations signed by counterpart	98,774,964	266,681,852	42,085,762
Cumulative operations disbursed by counterpart	35,156,481	97,000,000	960,238
EU contingent and financial liability			
Available guarantee signed with counterpart	86,000,000	300,000,000	50,000,000
EU risk for operations signed by counterpart	0	266,681,852	42,085,762
EU risk for operations signed by counterpart and disbursed	0	48,919,469	960,238
Cumulative guarantee calls and recoveries			
Cumulative guarantee calls	0	0	0
Cumulative recoveries	0	0	0
Cumulative net guarantee calls	0	0	0
Notes			There were amounts drawn for non-euro hedging, which however did not reduce the available EU guarantee
Cumulative expenses			
Fees to counterpart	2,000,000	6,458,883	1,880,000
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	0	0	0

1.2 European Fund for Sustainable Development

1.2.1 Description

Identification/Reference to the basic act		
Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund		
Maximum amount of budgetary guarantee (in EUR)	**of which signed with counterparts**	**of which effective of 31/12/2021**
1,548,968,935	1,548,700,000	1,390,700,000
of which ceiling authorised in the legal basis (in EUR)	**Counterparts**	
1,500,000,000	Agence Française de Développement (AFD), Agencia Española de Cooperación Internacional para el Desarrollo (AECID), Cassa Depositi e Prestiti (CDP), Compañía Española de Financiación del Desarrollo (COFIDES), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), International Finance Corporation (IFC), Kreditanstalt für Wiederaufbau (KfW), Nederlandse, Financierings-Maatschappij voor Ontwikkelingslanden (FMO), PROPARCO	
of which from external contributions (in EUR)		
48,968,935		
Budget Lines		
01 03 08		

	Cumulative to 2021	2022	2023	2024-2027	Total
Budgetary commitment appropriations (in EUR)	799,718,935	0	0	0	799,718,935
of which from voted budget	350,000,000	0	0	0	350,000,000
of which from internal assigned revenues	750,000	N/A	N/A	0	750,000
of which from external assigned revenues	448,968,935	N/A	N/A	0	448,968,935
Budgetary payment appropriations (in EUR)	799,718,935	0	0	0	799,718,935
of which from voted budget	350,000,000	0	0	0	350,000,000
of which from internal assigned revenues	448,968,935	N/A	N/A	0	448,968,935
of which from external assigned revenues	750,000	N/A	N/A	0	750,000

General description

The European Commission has established the European Fund for Sustainable Development ("EFSD") Guarantee to support investments and increase access to financing, primarily in Africa and the Neighbourhood.

The investments help to bridge the gap between the financing already available and the financing still needed to meet the UN Sustainable Goals. The EFSD Guarantee serves as a risk mitigation mechanism to leverage private sector financing (whilst avoiding market distortions) and to crowd-in private sector funds. The EFSD Guarantee is a new way of financing development projects. The EFSD Guarantee shares the risk involved in investing, so that development banks and private investors come in and lend to local entrepreneurs or finance development projects. By doing so, the EFSD Guarantee contributes to job creation and helps to boost economies. More jobs and higher growth make countries more stable and prosperous. Consequently, by supporting investments, the EFSD Guarantee addresses specific socioeconomic root causes of migration, including irregular migration, and contributes to the sustainable reintegration of migrants returning to their countries of origin and to the strengthening of transit and host communities.

The EFSD Guarantee was established by Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.

Individual guarantee agreements focus on five key sectors:

- small business financing
- sustainable energy and connectivity
- local currency financing
- digitalisation
- sustainable cities.

Implementation cycle

Following the Communication from the Commission in September 2016 on the "External Investment Plan", the Regulation establishing the European Fund for Sustainable Development was adopted in September of 2017.

Immediately after the Regulation was adopted, the Commission and Member States established the EFSD Governance structure. In turn, discussion between Member States, the European External Action Service and the Commission led to the establishment of the 'investment windows', which set sectoral priorities for the EFSD Guarantee. The Commission invited partner financial institutions to propose investment programmes to be covered by the EFSD Guarantee.

The response by the financial institutions was very positive. The EFSD was heavily oversubscribed i.e. the requests from the financial institutions exceeded the capacity of the EFSD Guarantee by over EUR 2 billion. The Commission received 46 proposals from 12 partner institutions for a total value of more than EUR 3.5 billion. From a performance assessment perspective, this is a crucial indication that the instrument was well designed. The high number of requests revealed that there was a significant gap in the market that the EFSD is filling, which is precisely one of the objectives of the EFSD.

The EFSD Regulation set an ambitious target for contracting and aimed to end the contracting period on 31 December 2020. The financial structures involved required significant negotiations between the Commission, the partner financial institutions, and the Guarantee Technical Assessment Group ("GTAG"), a body specialised in financial risk assessment established for the EFSD.

The Commission successfully negotiated the first guarantee agreement, the NASIRA programme with the Dutch Development Bank, FMO, at the end of 2018. Six more agreements followed in 2019, displaying the strong growth in the capacity of EFSD to turn proposals into signed guarantee agreements. As of 31 December 2020, the Commission exhausted the present capacity of the EFSD Guarantee exceeding the initial EFSD Guarantee capacity by signing with ten partner institutions eighteen guarantee agreements[8] worth of EUR 1.5 billion as a result of additional contributions from donors. All commitment and payment appropriations for year 2020 were fully exhausted.

Over the past year, there was an increased uptake of EFSD in our partner countries. In 2021, seven agreements signed their first deals. In many cases, these were the first deals of some of our partner financial institutions under EFSD. Operations signed by our counterparts almost doubled compared to last year, showing that the EFSD is progressing steadily to achieve its objectives.

A particularly positive note is the exponential increase in operations disbursed, which increased more than ten-fold. This means that 2021 was a particularly impactful year. Some countries, though eligible, still face certain investment bottle necks while others still face regulatory barriers and difficult commercial contexts which lead to smaller investment pipelines.

Several operations focus on a particular target group. An interesting transaction involved support to Micro, Small and Medium Enterprises ran by youth, women, and migrant entrepreneurs from Lebanon, Syrian, Ukraine, and Iraq currently living in Armenia, to support their income-generating business activities. This is a good example of how EFSD can offer opportunities to increase business lending in more vulnerable segments of the economy.

An important element in 2021 was the EFSD support to alleviate the economic impact of the Covid-19 pandemic. Due to the economic downturn, our partner financial institutions and

[8] Two guarantee agreements are not effective as of 31 December 2021.

local financial intermediaries were increasingly interested to get protection for their portfolios. In 2021, the EFSD has provided significant Covid-19 related support, with several Covid-19 transactions both in the EU Neighbourhood and in Sub-Saharan Africa. These included a portfolio to support MSMEs at pan-African level, a program where loans are being originated by companies lending to small businesses in Jordan and support to entrepreneurs in Palestine.

Implementation arrangements

The EFSD Guarantee is implemented by eligible counterparts in indirect management. The approval process of individual guarantee agreements is a multi-stage process, culminating in a Commission Decision on the Proposed Investment Programmes (PIPs) to be supported by the EFSD Guarantee (based on both the information provided by the eligible counterparts in their application form and the recommendation of the Operational Boards).

Following the adoption of the Commission Decisions, the Commission proceeds to conclude a guarantee agreement with each eligible counterpart. Each EFSD guarantee agreement is specifically designed to take into account both the specificities of the EFSD Guarantee and of the specific PIP. The financial structures involved require significant negotiations between the Commission, the partner financial institutions, and the Guarantee Technical Assessment Group ("GTAG"), a body established for the EFSD Guarantee with specialists in the assessment of financial risk now succeeded by the Guarantee Risk Experts Group (GREG), a body specialised in financial risk assessment established for the EFSD+ Guarantee situated in a newly created unit, shared between DG INTPA and DG NEAR.

All eligible counterparts to a guarantee agreement must be pillar-assessed entities. At the present stage, these entities are all public institutions or private with a public service mission, i.e. Member States national development finance institutions and multilateral development finance institutions. At this moment, no private entity has been pillar assessed (which is a pre-condition to be an eligible counterpart to co-sign an EFSD guarantee agreement).

The Commission has signed eighteen guarantee agreements with ten partner institutions. As of 31 December 2021, the list of counterparts is the following:

- Agence Française de Développement (AFD)
- Agencia Española de Cooperación Internacional para el Desarrollo (AECID)
- Cassa Depositi e Prestiti (CDP)
- Compañía Española de Financiación del Desarrollo (COFIDES)
- European Bank for Reconstruction and Development (EBRD)
- European Investment Bank (EIB)
- International Finance Corporation (IFC)
- Kreditanstalt für Wiederaufbau (KfW)
- Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO)
- PROPARCO

Duration

The EFSD Guarantee was established by Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (“EFSD”), the EFSD Guarantee and the EFSD Guarantee Fund.

Pursuant to Article 8 of the EFSD Regulation, the investment period, during which guarantee agreements for supporting investment programmes can be concluded with the eligible counterparts, lasted until 31 December 2020.

Eligible counterparts subsequently have four years as from the effective date of the guarantee agreement to conclude agreements for underlying operations with co-financing partners, financial intermediaries, or final beneficiaries. As a rule, the duration of the guarantees extended to eligible counterparts under each guarantee agreement should as a general rule not exceed fifteen years.

Added value

The EFSD Guarantee uses public resources in an innovative way to mobilise public and private investment, thereby creating growth and employment opportunities, maximising additionality, delivering innovative products and crowding-in private sector funds.

The innovative EFSD Guarantee will be used to reduce the risks for investment in sustainable development in partner countries, thus helping to mobilise investment, especially from private investors. EFSD should also allow investors and private companies, in particular micro, small and medium-sized enterprises (“MSMEs”), to contribute more effectively to sustainable development in partner countries.

EFSD aims to address market failures and suboptimal investment situations and aims to encourage private sector financing. EFSD should also foster the creation of decent jobs, economic opportunities and entrepreneurship, equitable access to, and use of, natural resources and the green and inclusive growth that further promotes gender equality and empowers women and young people.

Application of Article 155.2 FR

When implementing the EFSD guarantee agreements, financial institutions are contractually obliged to comply with applicable Union law and agreed international and Union standards and, therefore, not support actions that contribute to money laundering, terrorism financing, tax avoidance, tax fraud or tax evasion. Financial institutions may not enter into agreements with entities established in jurisdictions listed under the relevant Union policy on non-cooperative jurisdictions or that are identified as high-risk third countries pursuant to Article 9(2) of Directive (EU) 2015/849, or that do not effectively comply with Union or internationally agreed tax standards on transparency and exchange of information.

In addition, when concluding agreements with financial intermediaries, entities implementing EFSD Guarantees must transpose these requirements into the relevant agreements. The financial intermediaries are also obliged to report on the observance of these requirements.

In the reporting period, financial institutions did not report any issues.

Support combined with other Union actions

In 2021, the EU contributed an additional EUR 24 million for the Technical Assistance agreements accompanying the EFSD guarantee agreements. Two types of technical assistance were funded to support:

(1) projects – enabling development banks and investors to develop high-quality projects which the EFSD can help to finance and

(2) investment climate – enabling governments to enact reforms to make their countries more attractive places to invest in.

This puts the total amount for Technical Assistance accompanying the EFSD guarantee agreements in excess of EUR 117 million.

1.2.2 Operational Performance

In the course of 2021, the partner financial institutions continued and increased the implementation of the Guarantee agreements signed under the EFSD. Many of the guarantee agreements were signed towards the end of 2020 and have begun implementation with the first inclusion notices arriving in 2021.

The Commission established a Results Measurement Framework for the EFSD which is also used in the respective guarantee agreements. This Framework covers three levels: (1) the EFSD as a whole, including both the EFSD Guarantee and the blending operations; (2) the Investment Platforms and Investment Windows; (3) the investment programmes under the EFSD Guarantee and the projects under the blending operations. The Commission is responsible for monitoring and reporting under the first two levels, based on a set of pre-defined indicators. At programme and project level, the reporting on expected and actual operational results is the responsibility of the lead financial institution. The list of indicators, the frequency and format of reporting are part of the guarantee agreements signed with the financial institutions.

It is important to recall that the investment period is still on-going and for several agreements has only just begun. *Pro memoria*, the duration of many of the guarantees is over ten years. Concretely, the banks have in practice only started to sign the underlying operations with final recipients. As a consequence, it will probably only be for the 2023 report before more meaningful data on the achievement of the objectives of the budgetary guarantee as measured by the indicators established will be provided.

At the end of 2021, the EU risk for operations signed by the counterparts amount of EUR 610.6 million. In the framework of the EFSD guarantee the expected leverage ratio is 11.3 signifying that EFSD coverage will mobilise approximately 12 times that amount in public and private sector funding.

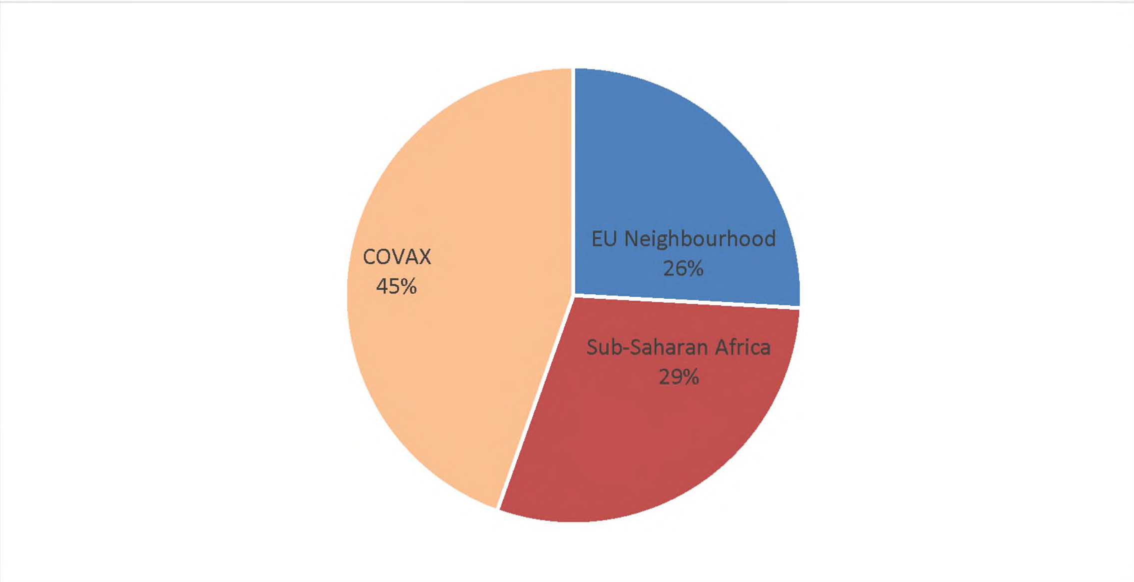
The following table summarizes the key operational figures presented above:

Key Figures (as at 31/12/2021)

Total amount of operations signed by counterparts (in EUR)	897,258,525
Total amount of operations disbursed (in EUR)	685,537,560
Amount transferred to final recipients (in EUR)	N/A
Number of final recipients	N/A
Investments made by final recipients	N/A
Private sector resources mobilised (in EUR)	1,252,614,873
Leverage (ratio)	1.47
Multiplier effect (ratio)	1.47

Geographical diversification

As of 31 December 2021, EUR 400 million (45%) of the EFSD Guarantee went to COVAX, with then EUR 232.3 million (26% out of the total operations signed) to the EU Neighbourhood and EUR 265.1 million (29%) to Sub-Saharan Africa. The EIB processed the full disbursement of the EUR 400 million COVAX Facility on 31 March 2021. As of December 2021, EUR 139.3 million vaccine doses were distributed to the 47 approved countries under the COVAX I & II facilities, for a total value of EUR 680million. In terms of donation volumes from eligible donors, on 31 December 2021, Gavi (ie the Global Alliance for Vaccines) counted EUR 1.7 billion in AMC (i.e. Advance Market Commitments) donations assigned to the COVAX facility, that will be gradually utilised to purchase additional doses over the coming months.

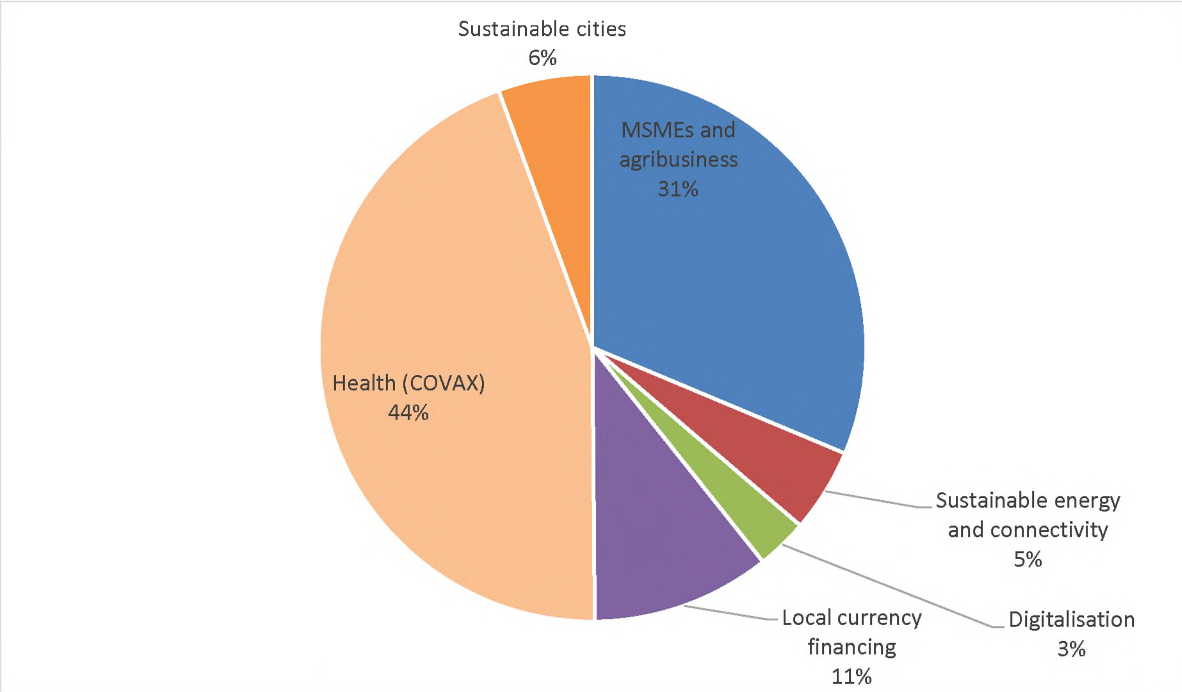


EIB Approved Countries	Distributed Vaccines (Doses)	Value of Distributed Vaccines (EUR)
European Neighbourhood Countries East	***5,699,360***	***37,667,683***
Moldova	283,590	1,500,458
Ukraine	5,415,770	36,167,225
European Neighbourhood Countries South	***36,518,610***	***184,428,470***
Algeria	8,656,800	37,734,023
Egypt	22,231,950	121,134,170
Morocco	3,772,590	16,344,234
occupied Palestinian territory (oPt)	409,020	1,936,731
Tunisia	1,448,250	7,279,311
Sub-Saharan Africa	***97,067,870***	***458,128,384***
Angola	7,991,550	40,318,128
Benin	620,280	2,802,453
Burkina Faso	1,782,390	9,425,614
Cabo Verde	29,850	93,924
Cameroon	741,700	2,522,236
Central African Republic	80,000	202,192
Chad	333,450	1,896,210
Comoros Islands	12,000	30,329
Congo	637,500	3,385,131
Côte d'Ivoire	4,605,490	22,596,823
Democratic Republic of the Congo	1,020,970	4,949,735
Djibouti	24,000	60,658
Ethiopia	7,282,380	32,413,488
Gambia	36,000	90,986
Ghana	4,266,170	20,680,627
Guinea	2,542,830	13,022,326
Guinea-Bissau	28,800	72,789
Kenya	5,289,750	26,402,841
Kingdom of Eswatini	124,620	632,847
Lesotho	136,620	663,176
Liberia	192,000	566,137
Madagascar	1,116,970	5,069,154
Malawi	1,092,060	4,238,784
Mali	1,831,200	7,861,550
Mauritania	173,730	768,057
Mozambique	5,137,200	18,424,212
Niger	1,538,400	6,058,674
Nigeria	23,396,340	111,347,075
Rwanda	2,638,210	13,407,767
Sao Tome and Principe	24,000	60,658
Senegal	866,790	3,613,614
Sierra Leone	593,310	2,848,243
Somalia	723,600	2,478,365
South Sudan	120,000	353,835
Sudan	2,645,190	11,038,851
Tanzania	2,577,990	12,471,379
Togo	2,047,850	9,589,604
Uganda	9,635,160	50,466,312
Zambia	1,752,720	8,814,850
Zimbabwe	1,378,800	6,388,752
Grand Total	**139,285,840**	**680,224,538**

Source: UNICEF COVID-19 Dashboard

Sectoral diversification

As of 31 December 2021, EUR 281 million went to MSMEs and Agribusiness (31% out of the total operations signed) EUR 44.4 million (5%) went to Sustainable energy and connectivity, EUR 27.2 million (3%) went to Digitalisation, EUR 94.8 million went to local currency financing (11%) and EUR 400 million (44%) went to Health in relation to COVAX.



1.2.3 Financial Information

Financial information at the level of budgetary guarantee

As of 31 December 2021, sixteen EFSD guarantee agreements were signed and effective with the total guarantee cover limit amounting at EUR 1.39 billion, while another two agreements were signed but not yet effective for the total amount of EUR 158 million. The operations signed by the counterparts under those agreements totalled EUR 897.2 million, with the EU risk for those operations capped at EUR 610 million. The EU risk related to the amounts disbursed by the counterparts amounted to EU 535.2 million. Given that the programme is in the ramp up phase, the EU risk at the level of operations signed and disbursed is expected to increase in the coming years. No guarantee calls nor guarantee fees has been paid by the end of 2021.

all figures in EUR

	EU contingent and financial liability	
	31-12-2021	31-12-2020
Available guarantee signed with counterparts	1,390,700,000	1,370,700,000
EU risk for operations signed by counterparts	610,668,652	438,564,528
EU risk for operations signed by counterparts and disbursed	535,250,632	34,514,441

all figures in EUR

	EU guarantee revenues	
	2021	Cumulative until 31-12-2021
EU guarantee revenues	817,153	817,153

all figures in EUR

	Guarantee calls and recoveries	
	2021	Cumulative until 31-12-2021
Guarantee calls	0	0
Recoveries	0	0
Net guarantee calls	0	0

all figures in EUR

	Expenses	
	2021	Cumulative until 31-12-2021
Fees to counterparts	0	0
Other expenses (recovery costs, funding costs, other)	0	0

Financial information at the level of guarantee agreement

	NASIRA Risk-Sharing Facility - Financing for underserved entrepreneurs	Ventures Programme - Empowering entrepreneurs for sustainable development	Archipelagos - One Platform for Africa - Supporting African SMEs throughout their lifecycle and developing capital markets
Overview			
Effective	Yes	Yes	Yes
Counterpart	FMO	FMO	CDP
Description	NASIRA addresses the high risks, both perceived and real, involved in lending to entrepreneurs who currently have limited or no access to finance in countries neighbouring the EU and in Sub-Saharan Africa. It encourages local banks to lend to borrowers who would usually be considered too risky, such as migrants, women, young people or COVID-19 affected small and medium-sized enterprises (SMEs). With this guarantee, we are addressing the root causes of migration, including irregular migration. This guarantee will generate EUR 1.1 billion investment to provide affordable loans to these entrepreneurs. It does so by offering local financial institutions, such as banks and microfinance institutions, portfolio guarantees. These cover several loans and partially secure the repayment of the principal amount of the loan.	VENTURES promotes sustainable development by: - enabling the development and growth of young companies; - contributing to healthy small local businesses. It is doing so by bringing scarce private investment to the venture sector, which are start-ups and innovative firms with the potential for rapid growth but associated with a high risk. It will boost investment especially for innovative start-ups that use digital solutions to improve or enable access to digital products and services for communities having no or limited access to either. The resulting investment will address some of the root causes of migration by creating jobs. It will also contribute to climate and environmental protection. The guarantee enables FMO, the Dutch development bank, to pursue direct and indirect investment for digital solutions.	ARCHIPELAGOS – One Platform for Africa (ONE4A)- supports high-potential African small and medium-sized enterprises (SMEs) in reaching their next stage of growth by accelerating access to debt financing (notably by piloting innovative capital markets solutions) and enabling financing partners to share the risk of investing in projects.This will allow high-potential African SMEs to: - mobilise financing and scale up investments - drive enterprise development - create new jobs - generate sustainable economic growth - improve the quality of life in Africa. It will also strengthen Africa's SME capital markets, making them effective intermediaries for mobilising resources for the private sector. This benefits in particular low-income countries with less developed capital markets. ONE4A spreads best business practices and know-how to SMEs. It also enables a smaller number of high-growth SMEs, currently perceived as too risky, to obtain funding from institutional investors.
Maximum guarantee signed with counterpart	100,000,000	40,000,000	30,000,000
Operation type	Portfolio guarantees	Layered Fund	Portfolio guarantees
Risk-sharing structure	Second loss	First loss	First loss
Cumulative operations signed by counterpart	158,054,770	27,210,704	0
Cumulative operations disbursed by counterpart	82,656,461	27,210,704	0
EU contingent and financial liability			
Available guarantee signed with counterpart	100,000,000	40,000,000	30,000,000
EU risk for operations signed by counterpart	15,968,205	9,070,235	0
EU risk for operations signed by counterpart and disbursed	10,639,945	7,377,441	0
Cumulative guarantee calls and recoveries			
Cumulative guarantee calls	0	0	0
Cumulative recoveries	0	0	0
Cumulative net guarantee calls	0	0	0
Cumulative expenses			
Fees to counterpart	0	0	0
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	0	0	0

all figures in EUR and as of 31/12/2021

	Framework to Scale-up Renewable Energy Investments - more clean power generation thanks to more certainty for investors	Resilient City Development (RECIDE) - Making investment in urban infrastructure more compelling	Africa Energy Guarantee Facility
Overview			
Effective	Yes	No	Yes
Counterpart	EBRD	AECID	KfW
Description	This guarantee supports renewable energy investments by addressing finance barriers to viable power projects and crowding-in private sector investment. As a result, it will: - unlock the countries' renewable energy potential - promote wider renewable energy development - demonstrate how the private sector can play a role in meeting growing demand for power. The EU guarantee provided to the European Bank for Reconstruction and Development (EBRD) is passed on to lenders, such as local commercial banks. This allows them to provide financing to projects alongside the EBRD's own loans. By doing so, this guarantee enables the development of multiple private, renewable energy projects, which aim to significantly reduce CO2 emissions and introduce a number of new private investors to the sector and countries, supporting its transition to a low-carbon economy.	RECIDE will help cities in Africa and the EU Southern Neighbourhood develop public-private partnerships and share the risks with private investors in urban infrastructure. This will include investment in: (1) energy efficiency, (2) flood protection, (3) public transport, (4) water and sanitation, (5) solid waste management. The EU guarantee aims to protect private financiers and investors against certain government-related risks in developing urban infrastructure, such as offtake risk. This is the risk of not being paid by utility companies (offtakers) for the service or goods produced and sold. The EU guarantee: - reassures lenders that they'll recover at least some of their investment in the event of losses - lowers the interest rate for borrowers - ensures that public-private partnership concessionaires will be paid as promised by government authorities.	African Energy Guarantee Facility (AEGF) aims to contribute to the promotion of renewable energy solutions to meet growing demand, address bottlenecks to private investments and bridge the gap between real and perceived risks in the African energy market. The Facility boosts private investments in sustainable energy projects in Sub-Saharan Africa, both expanding access to clean energy and contributing to economic growth. It helps cut the region's carbon emissions, increase energy efficiency and enables many more people to access energy.
Maximum guarantee signed with counterpart	50,000,000	100,000,000	46,000,000
Operation type	Single project guarantees	Single project guaratnees	Portfolio guarantees
Risk-sharing structure	First loss, Pari Passu	First loss	Second loss
Cumulative operations signed by counterpart	0	0	44,146,212
Cumulative operations disbursed by counterpart	0	0	1,019,115
EU contingent and financial liability			
Available guarantee signed with counterpart	50,000,000	0	46,000,000
EU risk for operations signed by counterpart	0	0	44,146,212
EU risk for operations signed by counterpart and disbursed	0	0	1,019,115
Cumulative guarantee calls and recoveries			
Cumulative guarantee calls	0	0	0
Cumulative recoveries	0	0	0
Cumulative net guarantee calls	0	0	0
Cumulative expenses			
Fees to counterpart	0	0	0
Other expenses (recovery costs, funding costs, other)	0	0	0

all figures in EUR and as of 31/12/2021

	SME Access to Finance Initiative	European Health Platform	EFSD municipal, infrastructure and industrial resilience programme
Overview			
Effective	Yes	Yes	Yes
Counterpart	EIB	EIB	EBRD
Description	SME Access to Finance Initiative aims to increase financial inclusion in Sub-Saharan Africa and the EU Neighbourhood. The Initiative targets small and medium-sized enterprises (SMEs) as well as groups with limited or no access to finance, particularly: start-ups; women-led businesses; businesses led by young people. The overriding goal is to address some of the root causes of migration. The Initiative will facilitate access to finance for local SMEs, especially for those who currently have no or limited access to finance. It will do so through partial portfolio guarantees. These will allow local banks to take on more risk and improve lending conditions by offering lower interest rates and/or reducing collateral requirements.	European Health Platform – this guarantee with the European Investment Bank (EIB) will reduce and remove financing constraints for accessing vaccines and health diagnostic services. It has two parts, which focus on improving: access to future COVID-19 vaccines in Africa and the EU Neighbourhood, access and quality of health-related diagnostic services for low-income populations in Sub-Saharan Africa, particularly in rural areas.	EU Municipal, Infrastructure and Industrial Resilience Programme will bolster industrial, building, municipal and sustainable infrastructure investments to address the negative impact of the COVID-19 pandemic on businesses, assets and employment in the EU Southern and Eastern Neighbourhood. It will also support the transitioning to green, low-carbon and climate-resilient economies by supporting investments in: green city infrastructure green logistic chains energy efficiency green technology transfers in industrial processes, commercial operations and buildings. The Programme will help improve infrastructure and municipal services, increase energy and water efficiency and create jobs in the EU Neighbourhood.
Maximum guarantee signed with counterpart	100,000,000	458,000,000	100,000,000
Operation type	Portfolio guarantees	Single project guarantees	Single project guarantees
Risk-sharing Structure	First loss	Other - COVAX part of this PIP features a full guarantee, Noc-COVAX part-first loss	First loss
Cumulative operations signed by counterpart	100,000,000	400,000,000	50,000,000
Cumulative operations	8,804,441	400,000,000	50,000,000
EU contingent and financial liability			
Available guarantee signed with counterpart	100,000,000	458,000,000	100,000,000
EU risk for operations signed by counterpart	16,000,000	400,000,000	11,704,000
EU risk for operations signed by counterpart and disbursed	1,552,121	400,000,000	7,904,000
Cumulative guarantee calls and recoveries			
Cumulative guarantee calls	0	0	0
Cumulative recoveries	0	0	0
Cumulative net guarantee calls	0	0	0
Cumulative expenses			
Fees to counterpart	0	0	0
Other expenses (recovery costs, funding costs, other)	0	0	0

all figures in EUR and as at 31/12/2021

	InclusiFI	AFD's European Guarantee for Renewable Energy – Non Sovereign (EGRE NS)	AgreenFI - Agricultural and Rural Finance Guarantee Programme with AfD
Overview			
Effective	Yes	Yes	Yes
Counterpart	CPD	AFD	AFD
Description	InclusiFI aims at financial inclusion driven by diasporas, leveraging private financing to foster inclusive and sustainable entrepreneurship and MSMEs growth. This guarantee increases the financing available for local entrepreneurs in Sub-Saharan and Northern Africa, who currently struggle to access the loans or capital they need to start or expand their businesses. It will particularly support small businesses led by women, young people and migrants. As a result, the Programme will help to reduce inequality and create jobs.	European Guarantee for Renewable Energy (non-sovereign) with AFD will increase access to sustainable energy to meet growing energy demand in Sub-Saharan Africa and the EU Neighbourhood. It will reduce the offtake risk of energy projects, which is the risk of not getting paid for the energy produced. It will give investors more certainty and thus a bigger incentive to invest in or to finance a renewable energy project. The support for renewable energy projects will help partner countries' economies become low-carbon and climate resilient.	The Agricultural and Rural Finance Guarantee Programme (AgreenFi) addresses the high risks, both perceived and real, in lending to micro-, small and medium-sized enterprises (MSMEs) in Sub-Saharan Africa and the EU Neighbourhood, who currently have no or limited access to finance. It will facilitate access to finance and/or make borrowing money more affordable in particular for small businesses operating in agriculture and located in rural areas.
Maximum guarantee signed with counterpart	60,000,000	50,000,000	91,500,000
Operation type	Combination: portfolio and single project guarantees	Single project guarantees	Single project guarantees
Risk-sharing structure	First and second loss	First loss	First and second loss
Cumulative operations signed by counterpart	4,000,000	0	0
Cumulative operations	2,000,000	0	0
EU contingent and financial liability			
Available guarantee signed with counterpart	60,000,000	50,000,000	91,500,000
EU risk for operations signed by counterpart	2,000,000	0	0
EU risk for operations signed by counterpart and disbursed	1,000,000	0	0
Cumulative guarantee calls and recoveries			
Cumulative guarantee calls	0	0	0
Cumulative recoveries	0	0	0
Cumulative net guarantee calls	0	0	0
Cumulative expenses			
Fees to counterpart	0	0	0
Other expenses (recovery costs, funding costs, other)	0	0	0

all figures in EUR and as of 31/12/2021

	AgreenFI - Agricultural and Rural Finance Guarantee Programme with PROPARCO - COVID-19 response	EU Market Creation Facility – TCX - Capacity Component	EU Market Creation Facility – TCX - Pricing Component
Overview			
Effective	Yes	Yes	Yes
Counterpart	PROPARCO	KfW	KfW
Description	PROPARCO's Covid 19 Response Component to Agricultural and Rural Finance Guarantee Programme (AgreenFI) aims at catalysing investment and support for local agricultural businesses in riskier environments and aiming at improving liquidity and access to finance to smallholder farms and agri/rural micro, small and medium enterprises (MSMEs), especially those impacted by the COVID-19 pandemic.	TCX - Capacity Component - This guarantee addresses this excess demand for local currency financing. In many parts of Sub-Saharan Africa and the EU Neighbourhood the demand for borrowing money in local currency is higher than the market supply. In development finance, loans are typically denominated in USD, Euro or Japanese Yen. This causes serious problems to borrowers in the event of an external shock like the COVID-19 pandemic, triggering a severe fall in the value of the local currency in which the borrowers earn their income. Solutions protecting against foreign exchange rate risk, so-called hedging solutions, exist but they are often not readily available or look expensive. The guarantee aims to improve access to hedging solutions and thereby allow for the development of lending products that lift the exchange rate risk from the shoulders of the borrower.	TCX - Pricing Component - aims at increasing access to local currency indexed borrowing to institutions based in Sub-Saharan Africa and the European Neighbourhood and to address short- and medium-term funding requirements triggered by the ongoing global health crisis. European Guarantee for Renewable Energy – Non Sovereign (EGRE NS) with CDP is aiming to improve certainty of payments for investors under offtake contracts in renewable energy projects in Africa and addressing the offtakers' non-payment risk which is considered critical for the development of independent power producers.
Maximum guarantee signed with counterpart	68,200,000	145,000,000	20,000,000
Operation type	Portfolio guarantees	Portfolio guarantees	Portfolio guarantees
Risk-sharing structure	First and second loss	First loss	First loss
Cumulative operations signed by counterpart	19,000,000	80,000,000	14,846,839
Cumulative operations disbursed by counterpart	19,000,000	80,000,000	14,846,839
EU contingent and financial liability			
Available guarantee signed with counterpart	68,200,000	145,000,000	20,000,000
EU risk for operations signed by counterpart	11,780,000	80,000,000	20,000,000
EU risk for operations signed by counterpart and disbursed	10,540,000	80,000,000	15,218,010
Cumulative guarantee calls and recoveries			
Cumulative guarantee calls	0	0	0
Cumulative recoveries	0	0	0
Cumulative net guarantee calls	0	0	0
Cumulative expenses			
Fees to counterpart	0	0	0
Other expenses (recovery costs, funding costs, other)	0	0	0

all figures as of 31/12/2021

	CDP: European Guarantee for Renewable Energy – Non Sovereign (EGRE NS)	Renewable Energy Support Programme	Small Loan Guarantee Programme
Overview			
Effective	Yes	Yes	No
Counterpart	CDP	COFIDES	IFC
Description	European Guarantee for Renewable Energy – Non Sovereign (EGRE NS) with CDP is aiming to improve certainty of payments for investors under offtake contracts in renewable energy projects in Africa and addressing the offtakers' non-payment risk which is considered critical for the development of independent power producers.	The Renewable Energy Support Programme for mainly rural areas of Sub-Saharan Africa will help to develop and finance renewable energy projects, which are not connected to the electricity distribution networks, so-called off-grid and mini-grid projects. It targets rural and peri-urban areas in Sub-Saharan Africa and areas without access to energy.	The Small Loan Guarantee Programme to be implemented by the International Finance Corporation (IFC), encourages local banks and finance institutions in the EU Neighbourhood and in Africa to scale up lending to micro, small and medium enterprises (MSMEs). It especially targets businesses in agriculture, education, health, engaged in climate change activities, impacted by the COVID-19 pandemic, including those led by women. To do so, the Programme will provide risk-sharing facilities along with advisory services to improve the availability of loan, guarantee and other financing facility products relevant for small businesses. This will help business owners particularly in low income, fragile and conflict-affected countries to access finance, grow and expand their businesses. It is expected that the implementation of the Programme would also boost economic growth, create jobs and reduce poverty in the partner countries.
Maximum guarantee signed with counterpart	12,000,000	20,000,000	58,000,000
Operation type	Single project guarantees	Single project guarantees	Portfolio guarantees
Risk-sharing structure	First loss	Second loss	First loss
Cumulative operations signed by counterpart	0	0	0
Cumulative operations disbursed by counterpart	0	0	0
EU contingent and financial liability			
Available guarantee signed with counterpart	12,000,000	20,000,000	0
EU risk for operations signed by counterpart	0	0	0
EU risk for operations signed by counterpart and disbursed	0	0	0
Cumulative guarantee calls and recoveries			
Cumulative guarantee calls	0	0	0
Cumulative recoveries	0	0	0
Cumulative net guarantee calls	0	0	0
Cumulative expenses			
Fees to counterpart	0	0	0
Other expenses (recovery costs, funding costs, other)	0	0	0

1.3 External Lending Mandate

1.3.1 Description

Identification/reference to the basic act
ELM 2014-2020: Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investments projects outside the Union; and Decision (EU) 2018/412 of the European Parliament and of the Council of 14 March 2018 amending Decision No 466/2014/EU granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union. **ELM 2007-2014:** Council Decision No 2006/1016/EC of 19 December 2006 granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community. **ELM 2000-2007:** Council Decision No 2000/24/EC of 22 December 1999 granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe, Mediterranean countries, Latin America and Asia and the Republic of South Africa). **ELM Old Mandates and Financial Protocols before 2000** comprises many basic acts focused on specific geographical areas which are not listed here.

Maximum amount of budgetary guarantee (in EUR)	of which signed with counterparts
70,869,500,000	70,869,500,000
of which ceiling authorised in the legal basis (in EUR)	**Counterpart**
70,869,500,000	European Investment Bank
of which from external contributions (in EUR)	
0	

Budget Lines
Provisioning of the GFEA: 2014-2020: 01 03 06 - Provisioning of the Guarantee Fund for external actions 2007-2013: 01 04 01 14 - Provisioning of the Guarantee Fund 2000-2006: 01 04 01 13 - Reserve for loans and loan guarantees to and in non-member countries 01 04 01 14 - Payments to the Guarantee Fund in respect of new operations

	Cumulative to 2021	2022	2023	2024	Total
Budgetary commitment appropriations (in EUR)	2,170,203,903	315,846,900	162,900,512	36,000,000	2,684,951,315
of which from voted budget	2,170,203,903	315,846,900	162,900,512	36,000,000	2,684,951,315
of which from internal assigned revenues	0	N/A	N/A	N/A	0
of which from external assigned revenues	0	N/A	N/A	N/A	0
Budgetary payment appropriations (in EUR)	2,170,203,903	315,846,900	162,900,512	36,000,000	2,684,951,315
of which from voted budget	2,170,203,903	315,846,900	162,900,512	36,000,000	2,684,951,315
of which from internal assigned revenues	0	N/A	N/A	N/A	0
of which from external assigned revenues	0	N/A	N/A	N/A	0

General description

The ELM Decisions (i.e. pre 2000 Protocols and legal basis, Council Decision No 2000/24/EC, Council Decision No 2006/1016/EC and Decision No 466/2014/EU of the European Parliament and of the Council, amended by Decision (EU) 2018/412) represent the legal basis for granting the European Investment Bank (EIB) a budgetary guarantee for financing operations carried out outside the Union (EU guarantee).

These decisions lay down the provisions to ensure that EIB financing under the ELM is consistent with corresponding EU assistance policies, programmes and instruments in the different regions. Under the ELM 2014-20, 64 countries outside the EU were eligible for EIB financing operations under the EU budgetary guarantee (following amendments introduced to the ELM Decision in 2018).

Based on the ELM Decision No 466/2014/EU, the Commission concluded a Guarantee Agreement with the EIB in 2014, amended and restated in 2018.

One amendment to the ELM Guarantee Agreement was concluded in 2020 to increase the country limit for Lebanon within the ERI Private Mandate (this possibility eventually remained unused) and one additional amendment was signed in 2021 to extend the duration of the ELM until end 2021, as envisaged by Article 49 of the NDICI-Global Europe Regulation.

In response to the 2015-2016 refugee crisis, the amending ELM Decision (Decision (EU) 2018/412) introduced the Economic Resilience Initiative (ERI) to contribute to addressing the root causes of migration. In order to include long-term economic resilience as an additional objective of the ELM Decision, EUR 1.4 billion was earmarked for public-sector investments addressing the needs of refugees and host communities (within the general mandate of EUR 30 billion), and a specific 'ERI Private Mandate' of EUR 2.3 billion was created to guarantee private-sector investments supporting long-term economic resilience.

Since the amendment of the ELM Decision in 2018, the EU budget was able to guarantee EIB financing operations of up to EUR 32.3 billion (previously, the maximum ceiling was set at EUR 30 billion, broken down into a fixed maximum ceiling of EUR 27 billion and an optional additional amount of EUR 3 billion) signed in 2014-2020 (later extended until end-2021). The EU liability under this guarantee is based on a portfolio cap.

The portfolio cap is defined in Article 1(4) of the ELM Decision in a dynamic way: "The EU guarantee shall be restricted to 65 % of the aggregate amount disbursed and guaranteed under EIB financing operations, less amounts reimbursed, plus all related amounts". As the overall amounts disbursed and repaid are constantly changing, the 65% threshold is also constantly changing.

Implementation cycle

While the European Parliament and the Council reached a political agreement on the Regulation establishing the ELM's successor at the end of 2020 (i.e. the so-called Neighbourhood, Development and International Cooperation Instrument), the NDICI-Global Europe Regulation was not adopted by end-2020. For that reason, the time period for signatures under the ELM as set out in the ELM Decision was "automatically" extended by six months, until the end of June 2021.

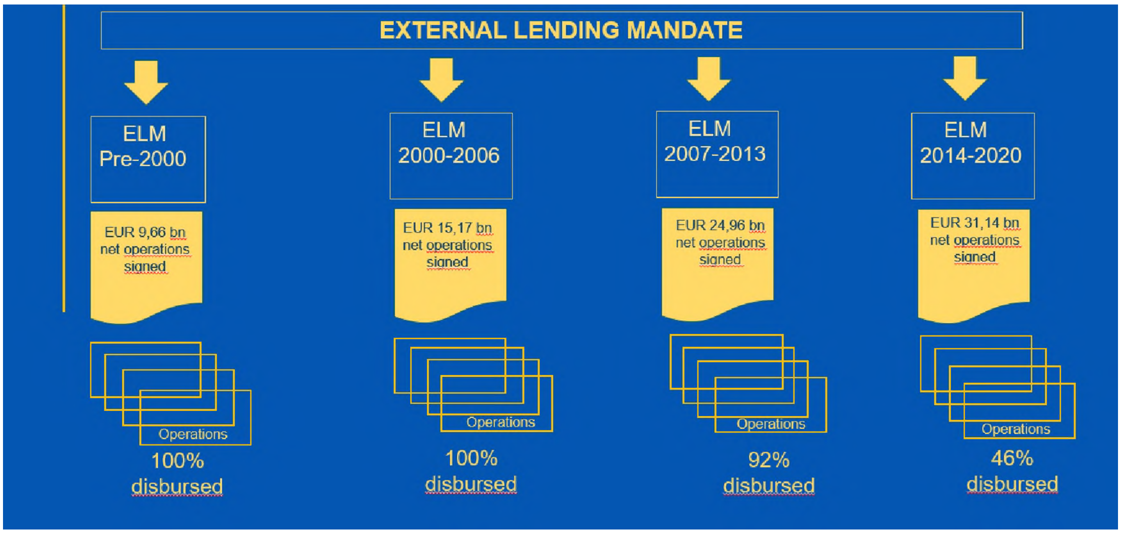
As the NDICI Regulation was only adopted in June 2021 and in order to mitigate the risk of business disruptions in ELM regions, the NDICI-Global Europe Regulation amended the ELM Decision by providing:

- an extension of the ELM EU Guarantee until 31 December 2021,
- enhanced flexibility for additional reallocations between and within the (sub)-regions under the original overall lending ceilings of EUR 32.3 billion by lifting the initial 20% limit, and
- a deadline extension for the final report on the implementation of the ELM decision to 31 December 2022.

In September 2021, the EIB Board of Directors decided to establish a new branch, "EIB Global", dedicated to EIB activities outside the EU. It is expected that the creation of this new organisational entity will help to improve EIB operations outside the European Union through more focus on development and more impact driven culture and incentives. It is expected that the EIB Global strategy will have a differentiated risk appetite, better adapted policies and guidelines, and strengthened cooperation with Team Europe partners.

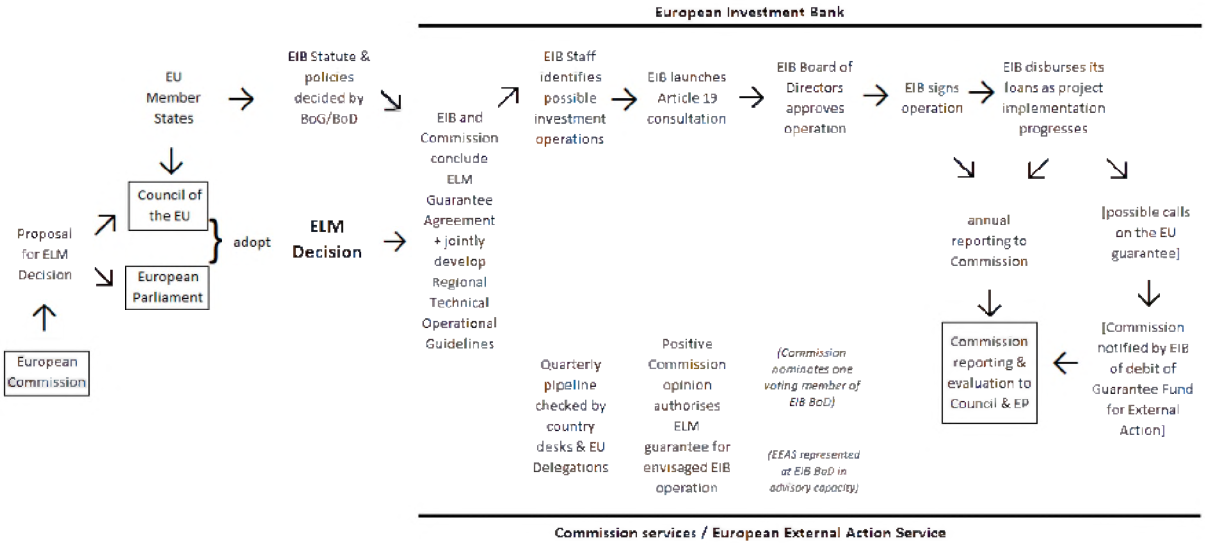
Also in 2021, the EIB began to implement the Additionality and Impact Measurement framework (AIM), replacing the previous Results Measurement (ReM) framework. The Additionality and Impact Measurement framework provides a comprehensive basis for measuring results and assessing each EIB project in terms of both its impact and additionality, in line with international best practices. The framework follows an established three-pillar logic that asks WHY an intervention by the EIB is needed, WHAT will be achieved by it, and HOW the EIB will make a difference.

Implementation diagram as of 31 December 2021 (amounts refer to signed volumes of EIB financing operations, net of cancellations, and excluding operations in countries that have meanwhile become EU Member States)



Implementation arrangements

The basic decision-making process in the context of the ELM is summarised in the chart below. The chart illustrates that the main responsibility for design and implementation of operations rests with the EIB and its decision-making bodies, while the Commission exercises an oversight function through the so-called 'Article 19 procedure', whereby the Commission checks the compatibility of the envisaged ELM financing operations with EU law and policies. This Article 19 procedure takes place at a relatively early stage, on the basis of the information provided by the EIB. [9]



The External Lending Mandate with the EIB has been a feature of the external policy of the European Economic Community and subsequently the European Union since 1977.

The rationale of the EU budgetary guarantee intrinsic to the ELM is that it enhances the risk bearing capacity of the EIB to undertake financing operations supporting the achievement of the EU's external policy objectives.

The ELM and the EU guarantee that sustains it have been renewed over the years through specific mandates co-decided by the European Parliament and the Council and implemented through guarantee agreements between the EIB and the European Union.

Duration

[9] Typically, the Commission opinions on investment projects under preparation by the EIB are issued before the EIB proceeds to the stage of due diligence and detailed technical preparation. The consultation is usually based on fiches of approximately two pages provided by the EIB, which may be complemented by follow-up questions from the Commission and answers by the EIB.

The first guarantee for EIB's financing operations outside the then-European Economic Community was put in place in 1977 and a number of such mandates has been provided to the EIB ever since.

The last External Lending Mandate has covered the period 2014-2020 and was extended until end-2021 as per Article 49 of the NDICI - Global Europe Regulation (Regulation (EU) 2021/947).

Added value

The EU budgetary guarantee provided to the EIB in the framework of the ELM has as main purpose to support EU policy objectives by enhancing the risk-bearing capacity of the EIB. Like that it enables the EIB to finance a number of operations outside the EU that without the budgetary guarantee would not be undertaken at all, or only on terms significantly less favourable for the beneficiary countries. In turn, the financing operations undertaken by the EIB thanks to the EU guarantee are expected to pursue policy objectives of the EU and to fulfil a number of conditions established by the European Parliament and Council.

Hence, the EIB financing operations performed in the framework of the ELM are an important vehicle to pursue the objectives of the Union's external policy as laid down in the corresponding Decisions. Decision (EU) 2018/412 for instance explicitly underlines that the added value of the ELM rests on its capacity to finance operations aiming at "reducing poverty through inclusive growth and sustainable economic, environmental and social development".

Application of Article 155.2 FR

The ELM Decision No 466/2014/EU establishes requirements to ensure that ELM operations comply with applicable international and EU standards on the prevention of money laundering, the fight against the financing of terrorism, taxation and non-cooperative jurisdictions.

Furthermore, the amended ELM Decision (EU) 2018/412 was reinforced with a reference to the fight against tax avoidance, going beyond earlier references to tax evasion and tax fraud.

Article 5 of that Decision requires ELM operations to be consistent with the strategies of the beneficiary countries and Article 7 formulates requirements regarding EIB cooperation with other international or EU Member States' financial institutions.

The EIB also has an Anti-Money Laundering and Counter Terrorism Financing framework in place (last revised in December 2020). That framework aims to prevent the EIB Group, its governing bodies, staff and counterparties from being associated with or used for money laundering, financing of terrorism or other criminal activities. In particular, to limit the EIB's exposure to risk from non-compliance with sanctions that apply to the EIB or EIB's business, the EIB has in place a control framework aligned with best banking practice that appropriately manages sanctions risk.

For the year 2021, the EIB did not report any cases related to the application of Article 155.2 of the Financial Regulation.

Support combined with other Union actions

The ELM guarantee can be combined with grant support. In 2021, there were 27 new grant approvals and one EFSD+ Guarantee operation (COVAX II, partially also covering non-ELM countries) that were fully or partially funded from EU budget for a total of EUR 954.01 million for implementation by the EIB in ELM regions. Of these, EUR 105.75 million was Technical Assistance (TA), EUR 648.26 million Investment Grants and EUR 200 million Financial Instruments (FI).

Meanwhile, 18 EIB projects signed in 2021 in ELM regions benefited, or will benefit, from those grants that were either directly funded by the EIB's own resources, like ERI TA, or implemented by the Bank and fully or partially funded from EU budget.

1.3.2 OPERATIONAL PERFORMANCE

Of the total EUR 4.8 billion of financing operations signed by the EIB during 2021 in the regions covered by the ELM, EUR 3.7 billion (77%) was covered by the EU guarantee. Of this latter amount, EUR 3.5 billion (95%) benefited from a comprehensive guarantee covering sovereign or sub-sovereign operations or private sector operations under the ERI private sector mandate, while the remaining EUR 180 million (5%) of signatures benefited from a political risk guarantee for private sector operations.

Compared to 2020, the total volume of EIB financing in ELM regions decreased by 32% (EUR 7.1 billion signed in 2020) in line with the limited headroom under the ELM ceiling that remained available for the year 2021.

In 2021, the main beneficiary regions of EIB operations in ELM regions were the Southern Neighbourhood (42% of the total) and the Pre-Accession countries (17% of the total). Nonetheless, also in the Southern Neighbourhood, the 2021 lending volume was 41% lower compared to the prior year due to the limited guarantee headroom that remained available for 2021. In the Latin America region the increase of 42% of the lending volume is mostly an outcome of the lending in two operations in Argentina, one in El Salvador, one in Ecuador and two in Brazil. A decrease in the lending volume in Ukraine also led to a total decrease in Eastern Neighbourhood of 46% compared to 2020.

As at 31 December 2021, operations signed by the EIB under all ELM mandates amount to EUR 93.24 billion (i.e. EUR 80.94 billion when excluding countries that have meanwhile become EU Member States) and the total amount of operations disbursed is EUR 74.51 billion (or EUR 62.21 billion when excluding EU Member States).

It is also worth noting that there have been 507 final recipients on all ELM mandates, on 1341 contracts signed by the EIB (excluding EIB operations in countries that have meanwhile become EU Member States).

Since 2000, EUR 124.4 billion represents the amount estimated to be invested by EIB final recipients (borrowers) over time in relation to the EUR 62.2 billion of EIB lending guaranteed by the EU under the various ELM mandates (i.e. mandates 2000-2007, 2007-2013 and 2014-2020). These figures exclude financing operations in countries that have meanwhile become EU Member States.

As a rule, the Bank co-finances up to 50% of total project costs. Some exceptions to this rule exist, where the EIB could finance a higher proportion of project costs, as can happen in projects that demonstrate a significant reduction in GHG emissions or a significant contribution to climate change adaptation, or in projects that are part of the EIB's response to the Covid-19 pandemic. Thus, the EIB has derogated from this rule in a number of financing operations, but overall 50% remains a reasonable assumption.

During the period 2014-2021, the amount of EUR 17.85 billion related to private sector resources represents approximately 57.34% of net signatures during the ELM 2014-2020 period and is calculated based on EIB's signatures for private sector development (one of the two vertical objectives of the ELM).

As regards the leverage and multiplier, they take into account that EU guarantee covers 65% of EIB lending (for mandates 2007-13 and 2014-2020) and EIB on average covers 50% of project costs. The leverage of 1.5 is calculated as the amount signed by the EIB under all the mandates, divided by the amount of EU liability (65% on a portfolio-level basis for the 2007-13 and 2014-20 mandates). The multiplier effect is reported at double the leverage, reflecting the EIB's 50% co-financing rule.

However, it is important to note that the that EU guarantee has already its built-in leverage as it is in fact provisioned at 9% of outstanding disbursed exposure. This feature of the guarantee significantly increases the effective implicit leverage from 1.5 to 17 and the multiplier from 3 to 33. However, also these estimates of leverage and multiplier need to be treated with caution, because the total amount provisioned for the legacy ELM portfolios is only determined ex-post, in line with the replenishment methodology set out in the GFEA Regulation.

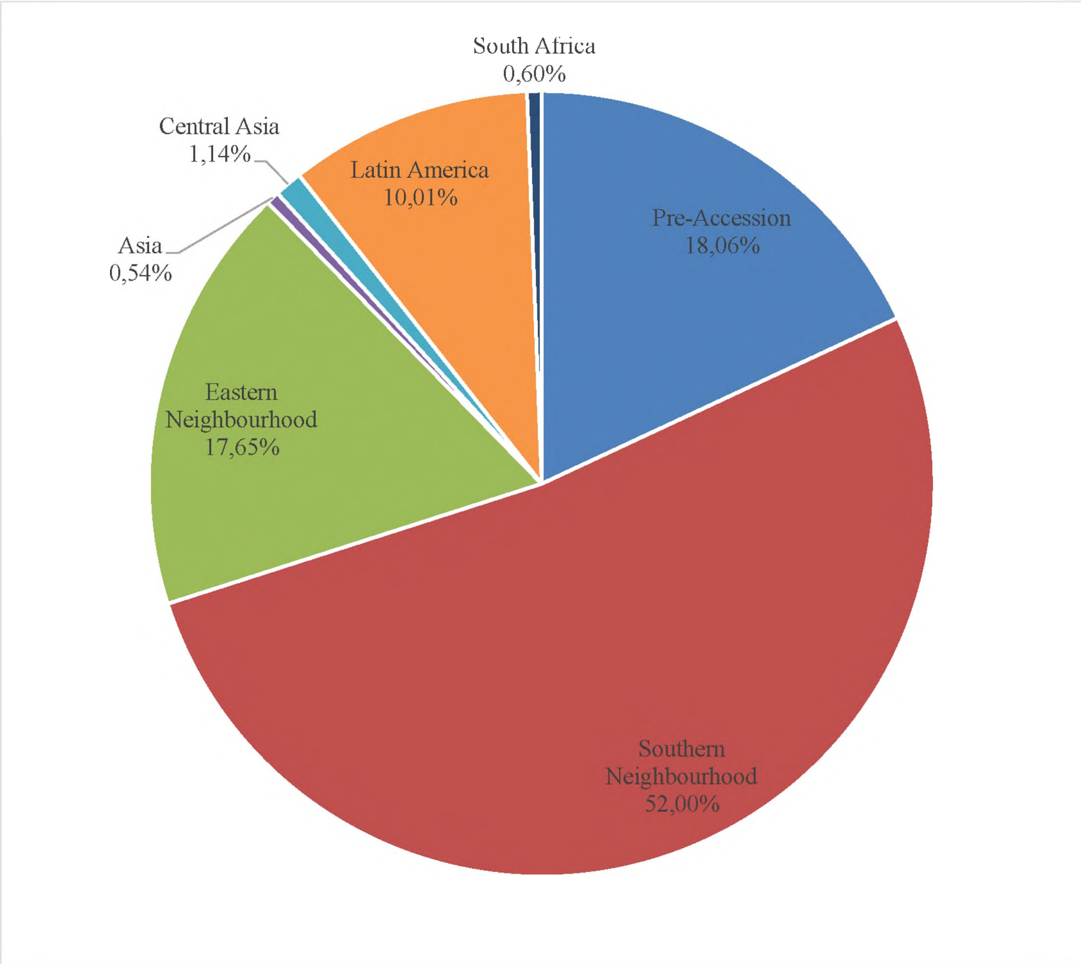
The following table summarizes the key operational figures presented above:

Key Figures (as of 31/12/2021)

Total amount of operations signed by counterparts (in EUR)	80,940,530,358
Total amount of operations disbursed (in EUR)	62,213,777,236
Amount transferred to final recipients (in EUR)	62,213,777,236
Number of final recipients	507
Investments made by final recipients	124,427,554,471
Private sector resources mobilised	17,858,000,000
Leverage (ratio)	1.5
Multiplier effect (ratio)	3

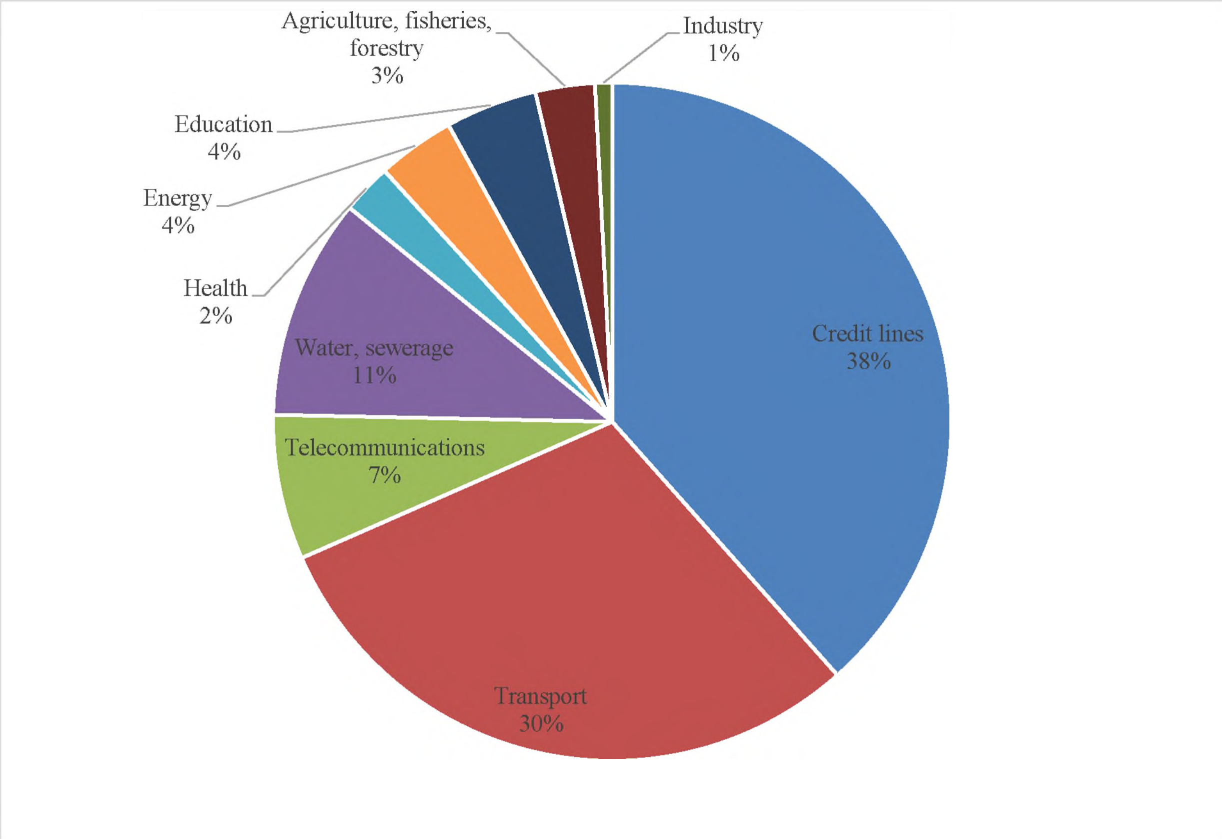
Geographical diversification

In 2021 the EIB signed operations accounting for EUR 3.7 billion out of which EUR 664 million (18%) in the Pre-Accession region, EUR 1.9 billion (52%) in the Southern Neighbourhood, EUR 649 million (18%) in the Eastern Neighbourhood, EUR 20 million (0,5%) in Asia, EUR 42 million (1%) in Central Asia, EUR 368 million in Latin America (10%) and EUR 22 million (1%) in South Africa.



Sectoral diversification

In 2021 the EIB signed operations accounting for EUR 3.7 billion out of which EUR 1.4 billion (38%) went to Credit Lines, EUR 1.1 billion (30%) went to Transport, EUR 254 million (7%) went to Telecommunication, EUR 388 million (11%) went to Water and Sewage, EUR 88 million (4%) went to Health, EUR 136 million (4%) went to Energy, EUR 161 million (4%) went to Education, EUR 104 (3%) went to Agriculture, Fisheries, Forestry and EUR 30 million (1%) went to Industry.



Contribution to the achievement of the ELM objectives

In 2021, the EUR 3.7 billion of operations signed by EIB contributed to the following EU policy objectives: 63% of the financing volumes aims to support the development of social and economic infrastructure, while 37% contributes to the development of the local private sector (each loan contributes to one of these two "vertical objectives"). In addition, 36% of the same financing signed also supports climate action, 26% also supports regional integration and 12 % also contributes to economic resilience ("horizontal objectives").

1.3.3 Financial Information

Financial information at the level of budgetary guarantee

The table below shows the extent to which the EU budget is exposed to possible future payments linked to guarantees given to the EIB under ELM mandates. As at 31 December 2021, the amount of outstanding ELM loans disbursed to final recipients totalled EUR 30.3 billion, with the EU guarantee limited to EUR 21.3 billion. This includes EUR 576 million of outstanding capital on loans provided to current EU Member States before their accession. When taking into account operations signed by the EIB but not yet disbursed (concerning mainly the 2007-2014 and 2014-2020 mandates) the EU risk extends to 33 billion. The investment period of the ELM was prolonged until 31 December 2021 which was the last date for signature of new operations.

all figures in EUR

	EU contingent and financial liability	
	31-12-2021	31-12-2020
Available guarantee signed with counterparts	33,025,553,632	35,574,705,504
EU risk for operations signed by counterparts	33,025,553,632	32,732,338,059
EU risk for operations signed by counterparts and disbursed	20,834,521,314	20,252,214,418

A total of EUR 658.6 million of guarantee calls have been made by the EIB on the EU guarantee in relation to operations in Syria, Tunisia, and Lebanon, including all called amounts (principal, interests, penalties and others), of which EUR 3.4 million has been recovered. When the EU makes a payment under the EU guarantee, it is subrogated into the rights and remedies of the EIB.

The EIB continued to call on the EU guarantee in 2021 in relation to its financing operations in Syria, where no repayments were received in 2021, as in previous years.

From May 2021 onwards, the EIB has also been calling on the EU guarantee in relation to several operations with Lebanese banks, where arrears started accumulating in September 2020.

In 2021 under all legacy external mandates taken together, the EIB called the EU guarantee for an amount of EUR 93.2 million[10].

As regards to the recovery actions undertaken by the EIB on subrogated amounts under the EU Guarantee. The main highlights on the recovery actions undertaken in 2021 can be summarised as follows:

- Lebanon: as a result of the deep generalised financial, economic and political crisis ongoing in Lebanon since Q4 2019 and further to notifying the EC of the existence of arrears in Lebanon for the first time on 4 November 2020, the EIB executed a first guarantee call under ELM on 31 May 2021 for arrears covered by both the comprehensive guarantee (CG) and the political risk guarantee (PRG).

  Further guarantee calls were executed during the year as and when the conditions for the calls were met. Given the long-lasting crisis in Lebanon, some borrowers approached the EIB with long-term restructuring proposals. However, the 2011 ELM Guarantee Agreement (under which the loans benefiting from the PRG fall) does not recognise restructurings or extensions in underlying tenor beyond 12 months. In September 2021, the Commission and the EIB agreed to increase from 12 to 24 months the time limit for payment deferrals that the EIB may grant to its borrowers under operations covered by the PRG. A bespoke arrangement was then put in place in order to enable the EIB to participate in a restructuring agreement with Bank Audi S.A.L. Recovery actions are expected to continue and intensify in 2022, with Lebanese bank borrowers seeking to negotiate restructurings with not only the EIB, but all their international lenders. Restructurings affecting loans benefiting from the PRG will entail further discussions between the EC and the EIB on a case-by-case basis.

- Syria: In 2021, the EIB made new guarantee calls under the EU Guarantee as a consequence of overdue amounts on the Syrian sovereign loans. The EIB discussed further during the year with the EC on the following potential next steps1 (i) the enforcement of the EU's judgments, (ii) engagement with Syria in settlement negotiations, (iii) issuing further legal proceedings in respect of sums falling due after August 2017 and (iv) acceleration. In relation to (iii), the EC confirmed to the EIB by e-mail on 20 December 2021 the agreement of the Commission's services to proceed with further litigation proceedings against Syria for amounts unpaid since mid-2017.

[10] This figure is calculated using the respective USD/EUR (InforEuro rates) applicable at the time of registering each guarantee call.

- Tunisia: The restructuring of the Aéroport Enfidha loan became effective end-February 2021. In December 2020, the shareholders injected the full EUR 53 million new money and EIB received an upfront payment of EUR 996,981.91 (50% were shared with the EC on 15 January 2021). On 5 March 2021, the EIB received payment of a restructuring fee amounting to EUR 335,436.61 (50% were shared with the EC on 24 March 2021). Under the terms of the restructuring, the debt was resized and re-tranched by all the senior lenders as follows: (i) EUR 11.1 million of Senior Debt was converted into an equity-like instrument issued in TND but giving access to EUR cash flows, (ii) EUR 49.9 million of Senior Debt was re-profiled with a new debt schedule including an extension of maturity to December 2032 and (iii) a small part of the exposure was forgiven (leading to a write-off of EUR 1.3 million of EU subrogated sums). The next cash payment to be made to lenders under the new structure is an interest payment scheduled for June 2022. The sustainability of the restructuring is under pressure as a result of the continuing impact of Covid-19 on the Tunisian tourism sector and, separately, political instability in Tunisia. New payment defaults can therefore not be excluded.

all figures in EUR

	Guarantee calls and recoveries	
	2021	Cumulative until 31-12-2021
Guarantee calls	93,262,875	658,626,918
Recoveries	1,118,460	3,443,017
Net guarantee calls	92,144,415	655,183,901

The EIB remunerates the EU only for the budgetary guarantee under the ERI Private Mandate (up to EUR 2.3 billion) introduced in 2018. In accordance with the ELM Guarantee Agreement, the EIB passes on to the EU the risk-related revenues on these operations. EUR 9.6 million of revenues have been received from EIB by the end of 2021 and EUR 20.9 million is revenues that accrued cumulatively in 2019, 2020 and 2021.

all figures in EUR

	EU guarantee revenues	
	2021	Cumulative until 31-12-2021
EU guarantee revenues	9,666,503	20,906,824

No fees have been paid to the EIB in relation to the EU guarantee under ELM mandate (other than for the asset management of the guarantee fund, until July 2021). Nevertheless, the EU has reimbursed the EIB for the costs of external legal services linked to efforts to recover unpaid amounts.

all figures in EUR

	Expenses	
	2021	Cumulative until 31-12-2021
Fees to counterparts	0	0

Other expenses (recovery costs, funding costs, other)	132,013	2,742,924

Financial information at the level of mandate[11]

all figures in EUR as of 31/12/2021

	ELM General Mandate 2014-2020 (Guarantee Agreement 2014 amended 2018) including ERI Private Mandate 2018-2020 (2021 extended)	ELM General Mandate 2007-2013	External Mandate 2000-2006	Old Mandates and Financial Protocols before 2000
Overview				
Effective	Yes	Yes	Yes	Yes
Counterpart	EIB	EIB	EIB	EIB
Description	The EU budgetary guarantee provided in the framework of the ELM enhances the risk-bearing capacity of the EIB by limiting the EIB's risk exposure. In doing so, it enables the EIB to undertake investment operations in riskier environments outside the EU and to pursue policy objectives established by the European Parliament and Council. The amended ELM Decision defined the following high-level objectives: Local Private Sector Development, in particular support to SMEs; Development of Social and Economic Infrastructure, including transport, energy, environmental infrastructure, information and communication technology; Climate Change Mitigation and Adaptation; and the long-term Economic Resilience of refugees, migrants, host and transit communities and communities of origin as a strategic response to addressing root causes of migration. Regional Integration among countries, including in particular economic integration between Pre Accession countries, Neighbourhood countries and the Union, shall be an underlying objective for EIB financing operations within areas covered by the general objectives.			
Maximum guarantee signed with counterpart	20,995,000,000	19,164,600,000	13,039,000,000	17,670,900,000
Operation type	Loans	Loans	Loans	Loans
Risk-sharing structure	First Loss Piece (capped at 65 % of the aggregate amount disbursed and guaranteed under EIB financing operations, less amounts reimbursed, plus all related amounts).		First Loss Piece guarantee restricted to 65 % of the aggregate amount of the credits opened, plus all related sums. The overall ceiling of the credits opened was EUR 18 410 million	Guarantee restricted to 70% 75% and 100% of the aggregate amount of the authorized credits opened, depending on the mandates
Cumulative operations signed by counterpart	31,143,073,708	24,962,701,454	18,275,489,235	18,860,472,038
Cumulative operations disbursed by counterpart	14,331,692,832	23,047,329,208	18,275,489,235	18,860,472,038
EU contingent and financial liability				
Available guarantee signed with counterpart	18,860,464,436	9,955,313,792	4,288,495,439	397,687,742
EU risk for operations signed by counterpart	18,860,464,436	9,955,313,792	4,288,495,439	397,687,742
EU risk for operations signed by counterpart and disbursed	7,933,066,867	8,710,321,832	4,288,495,439	397,687,742
Cumulative guarantee calls and recoveries				
Cumulative guarantee calls	37,457,649	119,271,801	362,903,482	138,993,986
Cumulative recoveries	37,082,910	27,987,798	27,733,435	6,482
Cumulative net guarantee calls	374,739	91,284,004	335,170,047	138,987,504
Notes	The cumulative amount of calls made by the EIB on the EU guarantee relate to operations in Syria and Tunisia since 2012			
Cumulative expenses				
Fees to counterpart	0	0	0	0
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	101,320			

[11] The numbers in this table include exposures to countries that in the meanwhile have become EU Member States.

1.4 European Fund for Sustainable Development Plus

1.4.1 Description

Identification/Reference to the basic act
Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU of the European Parliament and of the Council and repealing Regulation (EU) 2017/1601 of the European Parliament and of the Council and Council Regulation (EC, Euratom) No 480/2009
Budget lines
14 020170.01 (NEAR) EFSD+; 14 020170.01 (INTPA) EFSD+; 15 02 02 03.01 (NEAR) EFSD+
Maximum amount of budgetary guarantee
39,769,000
Amount of guarantee agreements signed with counterparts
200,000,000
Counterparts for the budgetary guarantee
European Investment Bank

	2021	2022	2023-2027	Total
Budgetary commitment appropriations	1,442,778,635	2,058,325,695	0	3,501,104,330
of which from the voted budget	1,442,778,635	2,058,325,695	0	3,501,104,330
of which from NGEU	0	0	0	0
of which from fines	0	0	0	0
of which from internal assigned revenues	N/A	N/A	N/A	0
of which from externally assigned revenues	N/A	N/A	N/A	0
Budgetary payment appropriations	0	427,573,149	0	427,573,149
of which from the voted budget	N/A	427,573,149	0	427,573,149
of which from NGEU	N/A	0	0	0
of which from fines	N/A	0	0	0
of which from external assigned revenues	N/A	N/A	N/A	0
of which from internal assigned revenues	N/A	N/A	N/A	0

General description

On June 14, 2021 the European Union adopted the Regulation establishing the Global Europe - Neighbourhood, Development and International Cooperation Instrument (Global Europe), which is proposed to be the main financial tool of the EU's international cooperation for the period of 2021-2027. It consists of three pillars: geographic, thematic and rapid-response, complemented by an additional emerging challenges and priorities cushion. Following the successful implementation of EFSD, which targeted investments in Sub Saharan Africa and the EU Southern and Eastern Neighbourhood countries, a new European Fund for Sustainable Development Plus (EFSD+) is set up under Global Europe and given a wider scope. It is an integrated financial package supplying financing capacity in the form of grants, technical assistance, financial instruments, budgetary guarantees and blending operations across Sub-Saharan Africa, the Neighbourhood and Enlargement countries, Asia and the Pacific, and the Americas and the Caribbean. As regards the guarantees under the EFSD+, they are covered by the broader External Action Guarantee (EAG), for a maximum amount of EUR 53.4 billion, which supports mainly the EFSD+ guarantees, as well as MFA and Euratom.

The Global Europe defines the key guiding principles that should be applied in the implementation of the initiative. According to Art. 31 of the Regulation, the EFSD+ shall:

- Foster sustainable and inclusive economic, environmental, and social development, transition into sustainable value-added economy and a stable investment environment.
- Promote socio-economic and environmental resilience in partner countries with a particular focus on the eradication of poverty.
- Contribute to the reduction of socio-economic inequalities, sustainable and inclusive growth, climate change adaptation and mitigation, environmental protection and management, the creation of decent jobs on the basis of the core ILO labour standards, economic opportunities, skills and entrepreneurship, socio-economic sectors, including social enterprises and cooperatives, SMEs, sustainable connectivity, the support to vulnerable groups, the promotion of human rights, gender equality and the empowerment of women and young people, as well as addressing specific socio-economic root causes of irregular migration and root causes of forced displacement.
- Attributes special attention to countries identified as experiencing fragility or conflict, Least Developed Countries and heavily indebted poor countries, including by providing support for institutional capacity building, economic governance and technical assistance.

As defined in Global Europe, the allocation of funds to be used for EFSD+ operations is based on the relevant programming documents, in particular the priorities defined therein, and shall take into consideration, inter alia, the specific realities and needs of each partner country or region. In line with the approach set forth under the European Financial Architecture for Development, the Global Gateway communication, as well as the conclusions of the EU-AU Summit, Indo-Pacific Summit, Eastern Partnership Summit, the EFSD+ will play a key role in delivering on the EU-Africa Global Gateway Investment Package, the Economic and Investment Plans for the Neighbourhood East, South and the Western Balkans as well as the Indo-Pacific strategy. Flagship initiatives within these investment plans are/should be developed using a Team Europe approach.

Implementation cycle

The new European Fund for Sustainable Development Plus (EFSD+), builds on the European Fund for Sustainable Development (EFSD) as established by Regulation (EU) 2017/1601.

The allocation of funds and strategic areas for investments to be used for EFSD+ operations is based on the relevant programming documents, in particular the priorities defined therein, and takes into consideration, inter alia, the specific realities and needs of each partner country or region and the relative weight of the allocation of funds per geographical area laid down in the Global Europe regulation.

The EFSD+ is a budgetary guarantee that will become fully operational in 2022 after approval by the governance bodies. The EFSD+ Strategic Board approved the general policy orientations and main objectives of the thematic investments areas on 10 November 2021.

In 2021, one guarantee agreement was signed and disbursed: COVAX II, the vaccines pillar of the access to COVID-19 tools, for a total amount of EUR 200 million.

Implementation diagram

The EFSD+ Guarantee will cover an ample spectrum of investments across different areas, encompassing both EIB-dedicated guarantee cover as per Article 36 Global Europe as well as guarantees provided through an "open architecture" on the basis of calls for investment proposals that will be launched in 2022 to strengthen coordinated approached among Development Finance Institutions, policy steer by the Commission in implementing EU development policy and simplifying access to financing.

Source: European Commission. The figures mentioned above are estimates.

Implementation arrangements

The EFSD+ Guarantee will be implemented by the eligible counterparts in indirect management. The approval process of individual guarantee agreement is a multi-stage process, culminating in a Commission Decision on the Proposed Investment Programmes (PIPs) to be supported by the EFSD+ Guarantee, based on both the information provided by the eligible counterparts in their application form and the recommendation of the Operational Boards.

Pursuant to Article 36 of the Global Europe regulation, the EIB shall implement an exclusive dedicated investment window covering a comprehensive risk cover for operations with sovereign counterparts and non-commercial sub-sovereign counterparts. The EIB shall also be eligible for implementing operations with sub-sovereign counterparts not covered under the exclusive dedicated investment window and operations with the private sector.

Following the adoption of the Commission Decisions, the Commission will proceed to conclude a guarantee agreement with each eligible counterpart. Each EFSD+ guarantee agreement will be specifically designed to take into account both the specificities of the EFSD+ Guarantee and of the specific PIP. The financial structures involved requires significant negotiations between the Commission, the partner financial institutions, and the Guarantee Risk Experts Group (GREG), a body specialised in financial risk assessment established for the EFSD+ Guarantee. Formerly known as the Guarantee Technical Assessment Group (GTAG), GREG is a newly created unit, shared between DG INTPA and DG NEAR.

Duration

As part of the Global Europe - Neighbourhood, Development and International Cooperation Instrument (Global Europe) Regulation, the EFSD+ was established when the Global Europe regulation was adopted on June 14, 2021. Pursuant to Article 31 of the Global Europe regulation, the investment period, during which guarantee agreements for supporting investment programmes can be concluded with the eligible counterparts, lasts until 31 December 2027.

Eligible counterparts subsequently have four years as from the effective date of the guarantee agreement to conclude agreements for underlying operations with co-financing partners, financial intermediaries or final beneficiaries. As a rule, the duration of the guarantees extended to eligible counterparts under each guarantee agreement should not generally exceed fifteen years.

Added Value

The EFSD+ Guarantee uses scarce public resources in an innovative way to mobilise public and private investment, thereby creating growth and employment opportunities, maximising additionality, delivering innovative products and crowding-in private sector funds.

The EFSD+ Guarantee will be used to reduce the risks for investment in sustainable development in partner countries, thus helping mobilise investment, especially from private. The EFSD+ should also allow investors and private companies, in particular micro, small and medium-sized enterprises (MSMEs), to contribute more effectively to sustainable development in partner countries. The EFSD+ aims to address market failures and suboptimal investment situations and encourage private sector financing.

Application of Article 155.2 FR

When implementing EFSD+ guarantee agreements, financial institutions are obliged contractually to comply with applicable Union law and agreed international and Union standards and, therefore, not support actions that contribute to money laundering, terrorism financing, tax avoidance, tax fraud or tax evasion. Financial institutions may not enter into agreements with entities established in jurisdictions listed under the relevant Union policy on non-cooperative jurisdictions or that are identified as high-risk third countries pursuant to

Article 9(2) of Directive (EU) 2015/849, or that do not effectively comply with Union or internationally agreed tax standards on transparency and exchange of information.

In addition, when concluding agreements with financial intermediaries, entities implementing EFSD+ Guarantees must transpose these requirements into the relevant agreements. The financial intermediaries are also obliged to report on the observance of these requirements.

Currently, no issues were reported by financial institutions.

1.4.2 Operational Performance

The following table summarizes the key operational figures presented above:

Contribution to the achievement of the EFSD+ objectives

In 2021 key governance decisions have been taken at the 1st Meeting of the EFSD+ Strategic Board 10 November. The EU Member States together with the EU Commission, the EU External Action Service and the EIB approved the Strategic Orientations as main reference framework for implementation of EFSD+.

Three overarching priorities were defined for all operations which have to contribute to:

1. Green Deal,
2. Global Gateways and
3. Jobs and Sustainable Inclusive Growth

The policy orientations set out the following six investment areas for which the partner financial institutions can submit PIP proposals for the global EU guarantee:

1. Micro, Small and Medium Enterprises (MSMEs)
2. Connectivity: Energy, Transport and Digital
3. Sustainable Agriculture, Biodiversity, Forests and Water
4. Sustainable Cities
5. Sustainable Finance and Impact Investing
6. Human Development

Based on these investment areas, the Commission will work on detailed descriptions of Investment Windows for EFSD+ open architecture guarantees. These will be proposed to the EFSD+ Operational Board in 2022.

1.4.3 Financial Information

Financial information at the level of budgetary guarantee

As of 31 December 2021, one EFSD+ operation was signed and disbursed with the total guarantee cover limit amounting at EUR 200 million. The operation signed by the counterparts under those agreements totaled EUR 200 million, with the EU risk for those operations capped at EUR 200 million. The EU guarantee related to the amounts disbursed by the counterpart amounted to EU 200 million. Given that the regulation was adopted in 2021 and DG INPTA and DG NEAR started the negotiations of the EIB Guarantee Agreement Window1 and the carry over PIPs, thus the number guarantee agreements signed is expected to increase in the coming years. No guarantee calls nor guarantee fees have been paid by the end of 2021.

2 COMMON PROVISIONING FUND

2.1 DESCRIPTION

The Common Provisioning Fund (CPF) entered into operation in 2021, along with the new MFF for the period 2021-2027.

Title X of the Financial Regulation entrusts the Commission as financial manager of the CPF with as responsibilities the setting up of the CPF, the definition of its investment strategy and the oversight of its sound management.

Pursuant to Article 214 of the Financial Regulation, the Commission shall report annually to the European Parliament and the Council on the CPF. The report under Article 214 FR, which focuses on the asset management aspects of the CPF, was adopted on 16 May 2022[12] and contained the following information:

- the role and structure of the CPF;
- key developments related to its functioning during 2021;
- overview of calls on guarantees and transactions, as well as information on the level of the effective provisioning rate;
- portfolio composition, risk profile and performance in 2021 (presented against the benchmark);
- environmental, social and governance ("ESG") profile of the CPF;
- description of the market environment and developments that shaped the fund's performance in 2021;
- lessons learned over the first year of operation of the fund and the steps the Commission intends to take to ensure value protection and growth opportunities of the CPF over the longer term.

[12] Pursuant to Article 214 of the Financial Regulation (FR) (Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, the Commission shall report annually to the European Parliament and to the Council on the common provisioning fund. Report from the Commission to the European Parliament and the Council on the common provisioning fund in 2021 (COM (2022)/213 final), accompanied by SWD(2022)143 final.

Following the requirements g), h) and i) of article 41(5) of the Financial Regulation (FR), this chapter focuses mainly on the financial aspects of the CPF not already presented in the report under Article 214 FR. In terms of timing, it covers operations from 1 January 2021 to 31 December 2021.

2.1.1 ROLE OF THE CPF

The CPF holds the provisions protecting the EU budget against losses which may arise as a result of financial instruments, budgetary guarantees or financial assistance for third countries as established by different EU legislative instruments.[13] The CPF was constituted in January 2021.

The CPF is the capital reserve from which funds are drawn to meet, fully and promptly, all required outflows and guarantee calls (defaulting operations) stemming from the financial instruments, budgetary guarantees and provisioned loan programs.[14] In order to serve as a reliable buffer for these calls, the CPF is managed in a way that should, at least, strive for capital preservation over its investment horizon. It is divided into several compartments, which correspond to the financial liabilities under the respective instruments and programmes.

2.1.2 ARCHITECTURE OF THE CPF

The CPF is created and functions as a single internal pooled portfolio with a single investment strategy, separated from the other portfolios managed by the Commission. Any generated gains are reinvested.

The resources of the CPF are accounted for in compartments for the purpose of tracing the amounts relating to the various contributing instruments.[15]

On 31 December 2021 the CPF was composed of four compartments (EFSI, EFSD, GFEA and InvestEU). In 2021 it received EUR 12.44 billion net contributions. As of 31 December 2021 the market value of the outstanding shares was EUR 12.31 billion, which is equal to the value of net assets, making it by far the largest portfolio directly managed by the Commission.

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[13] Article 212 of the FR.

[14] CPF underpins the system of various forms of support that the EU will provide under the current MFF, notably InvestEU and EFSD+. The CPF also accumulates assets of legacy contributing instruments under the previous MFFs (EFSI, EFSD, GFEA).

[15] According to Article 3 of the AMGs, the resources of the CPF are allocated into compartments corresponding to each of the contributing instruments as outlined in Article 1 of the AMGs.

2.2 FINANCIAL FLOWS

In combining provisions from different contributing instruments, the CPF receives inflows that are recognised in net assets as subscriptions to the respective compartment[16] after the cash is credited on the CPF bank account or after other assets have been transferred to the CPF (contribution in kind). Outflows from the CPF are treated as redemptions that decrease the amount of contribution in the respective compartment. Proceeds from the redemption are paid into an EU budget bank account to fund the payment of guarantee calls expected over the next months. Table 1 shows total subscriptions and redemptions to/from respective compartments of CPF on different dates during 2021.

Table 1 – Subscriptions and redemptions to/from CPF compartments in 2021

Compartment	Date	Flow Type	Flow Amount
EFSI	01-01-2021	Subscription	8,027,834,210
EFSI	30-06-2021	Subscription	110,000,000
EFSI	31-08-2021	Subscription	210,000,000
EFSI	30-09-2021	Subscription	205,000,000
EFSI	31-10-2021	Subscription	74,995,030
INVESTEU	30-06-2021	Subscription	100,000,000
INVESTEU	30-11-2021	Subscription	175,999,543
INVESTEU	31-12-2021	Subscription	24,781,919
EFSD	01-08-2021	Subscription	798,238,694
GFEA	01-08-2021	Subscription	2,786,533,365
GFEA	31-08-2021	Redemption	-50,000,000
GFEA	30-09-2021	Subscription	21,446
GFEA	31-10-2021	Redemption	-30,000,000
GFEA	30-11-2021	Subscription	6,331,950
CPF	**31-12-2021**	**Total**	**12,439,736,157**

In total in 2021, the CPF received EUR 12.44 billion in net contributions. As of 31 December 2021, the market value (i.e. net assets) of the CPF was EUR 12.31 billion, which translates into the total annual loss of EUR 0.13 billion. EUR 132,943,635 is unrealized loss due to changes in market value of the assets held in the portfolio and EUR 372,122 is realized loss due to sale of proceeds at redemption (incl. average costs). Table 2 below summarizes the loss distribution per compartment.

[16] According to Article 3 of the AMGs, the resources of the CPF are allocated into compartments corresponding to each of the contributing instruments as outlined in Article 1 of the AMGs.

Table 2 – Distribution of losses and market value of CPF compartments as of 31 Dec 2021

Compartment	Net contributions	P&L unrealized	P&L realized	Total P&L	Market Value
EFSI	8,627,829,241	-98,734,434	-	-98,734,434	8,529,094,807
INVESTEU	300,781,462	-1,006,207	-	-1,006,207	299,775,255
EFSD	798,238,694	-7,558,890	-	-7,558,890	790,679,804
GFEA	2,712,886,761	-25,644,104	-372,122	-26,016,226	2,686,870,535
CPF	**12,439,736,157**	**-132,943,635**	**-372,122**	**-133,315,757**	**12,306,420,400**

3 ASSESSMENT OF THE CONTINGENT LIABILITIES GENERATED BY THE BUDGETARY GUARANTEES AND FINANCIAL ASSISTANCE

3.1 INITIAL REMARKS

Contingent liabilities are potential EU financial liabilities that may arise from future events whose occurrence is, at this stage, still uncertain but whose impact on the EU budget may be significant. In the context of the EU budget, contingent liabilities essentially stem from the three following sources:

- Exposures from budgetary guarantees:

At this stage, this relates to guarantees provided under the EFSI, EFSD, EFSD+ and ELM programmes. For InvestEU, at the end of the 2021 reporting period, there were no guarantee agreements signed yet and the implementation is starting in 2022 only. Under all budgetary guarantee instruments, the EU (partially) covers implementing partners' losses resulting from payment defaults emanating from financing and investment operations (debt or equity) as stipulated by the respective guarantee agreements.

- Exposures from borrowing, the proceeds of which are used to provide financial assistance to third countries (Macro Financial Assistance ("MFA") and Euratom):

This type of contingent liabilities relates to exposures of the EU in relation to loans granted to a number of third countries. Such loans are financed via 'back-to-back' borrowing, where each loan to a third country is being funded via an EU bond issued on the financial markets that completely replicates the EU third country loan in terms of maturity, interest rate and repayment schedule.

- Exposures from borrowing, the proceeds of which fund the financial assistance to Member States (BoP, EFSM, Euratom, SURE, RRF[17] loans under NGEU).

Exposures for this type of contingent liability are not provisioned and their sustainability is assessed and presented in the Article 250 FR report.

The analysis performed in this Article 41(5) report focuses on the sustainability of contingent liabilities arising from provisioned instruments, i.e. the contingent liabilities stemming from budgetary guarantees and financial assistance to third countries.

[17] According to Article 3 of the Asset Management Guidelines (AMGs), the resources of the CPF are allocated into compartments corresponding to each of the contributing instruments as outlined in Article 1 of the AMGs.

3.2 BUDGETARY GUARANTEES METHODOLOGY

Assumptions and particularities

The risk implied in contingent liabilities for budgetary guarantees is - to a large extent - assessed on the basis of mathematical/statistical "credit risk models", which are an important tool to estimate future losses (and revenues) resulting from budgetary guarantees. These models quantitatively support the assessment performed by the Commission services in charge of implementing the specific programmes and complement their analysis. These mathematical/statistical "credit risk models" use pragmatic assumptions to model the underlying operations and to estimate expected losses and the uncertainty around those expected loss estimates (in other words, these models provide information on the probability to fully deplete the guarantee fund over the lifetime of the guarantee). However, models as such can only provide an estimate of future losses on the underlying operations under certain assumptions and it cannot be excluded that actual future losses will deviate from these forecasts.

For operations covered by the EU guarantee where risk metrics are not available and credit risk cannot be modelled with the available tools, the Commission estimates of relevant risk metrics are based on expert judgment, guided by historical experience with the functioning of the underlying instruments.

Finally, it is worth mentioning that the Commission is further developing a unified credit risk model that should be used across the board for the credit risk in budgetary guarantees. In addition, methodologies that are currently used (e.g. for equity instruments) are also refined on a continuous basis in order to incorporate experience which is built up over the years. Going forward, those developments will help the Commission to further fine-tune its approach to risk assessment and monitoring.

Assessment of the adequate provisioning of the relevant compartment of the CPF

A first risk measure that is analysed is the "*de facto* provisioning rate" which is to be compared with the target provisioning rate that is set in the budgetary guarantee Basic Act[18]. In order to make this analysis, the actual value of the guarantee fund is compared with the total amount of signed guarantees. This analysis is performed both at year-end 2021 and is also projected for the next 5 years.

When the "*de facto* provisioning rate" is not expected to significantly deviate from the target provisioning rate, it can be concluded that the current and future levels of provisioning are (expected to be) in line with the initial provisioning target and that the contingent liabilities are effectively covered.

[18] This risk measure needs to be interpreted with caution in case the programme is not fully up and running yet and/or the provisioning has not been constituted in full yet.

Assessment of the riskiness of the guaranteed operations as compared to the *ex-ante* risk appetite of the Commission for a programme

A second risk measure relates to the confidence in the hypothesis that the current provisioning (i.e. the amount available in the guarantee fund) will be sufficient to cover the losses (net of guarantee revenues and recoveries) of the programme over a certain time period. The analysis presented below will look both at the 5-year time horizon (to be in line with the multi-annual timeframe of the first part of the analysis (cf supra)) and at the lifetime figure, which then allows to compare with the initial pre-defined risk appetite of the program[19].

3.3 ANALYSIS FOR BUDGETARY GUARANTEE PROGRAMMES

3.3.1 EFSI

Assumptions and particularities

The EFSI fund consists of two windows ("Infrastructure and Innovation" and SME) that both have debt and equity products. The Commission uses a credit risk model for the IIW debt operations. For the equity operations included in the IIW and the SMEW, the Commission's estimates are based on expert judgment.

The 2018 Financial Regulation established the Common Provisioning Fund (CPF) to hold the provisions assigned to cover the financial liabilities arising from budgetary guarantees and financial assistance programmes under the 2021-2027 Multiannual Financial Framework as well as legacy liabilities. As of January 2021, the Guarantee Fund under the EFSI has been transferred to the CPF and constitutes a separate compartment thereof.

Assessment of the adequate provisioning of the EFSI Guarantee Fund compartment

The EFSI Regulation[20] - in its Article 12(5) - has set the target rate for the provisioning at 35% and the provisioning of the Guarantee Fund needs to be maintained at this level.

At 31 December 2021 the EFSI GF compartment[21] held provisions worth EUR 8,602,182,452. This figure needs to be compared with the "Total available Guarantee amount signed with Counterparts" (which is defined as the 'ceiling in the guarantee agreements signed and effective' minus 'all net payments that reduce the guarantee cap'

[19] Expressed as the confidence level that provisioning would be sufficient to cover the net losses over the lifetime of the program.

[20] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02015R1017-20210101&from=EN

[21] Including the cash buffer held at the central treasury

minus 'released guarantees') of EUR 25,825,743,277 at 31 December 2021[22]. When the available provisioning is divided by the total available guarantee amount as defined above, the *de facto* provisioning rate is 33.3%. However, the EFSI GF compartment is still in the build-up phase until end 2022. In other words, further provisioning from the EU budget and reflows are foreseen in 2022 to further constitute the guarantee fund. Only once the constitution phase is finalised, the need for potential further replenishment will be assessed.

Assessment of the riskiness of the guaranteed operations as compared to the *ex-ante* risk appetite of the Commission for this programme

The assessment of the adequacy of the EU Guarantee Fund's provisioning rate confirmed that, taking into consideration the results of the in-house credit risk model[23] with respect to the IIW debt product in combination with the evolution of exposures and losses under the IIW-equity sub window and the SMEW as of 31 December 2021, the applicable provisioning rate of 35% of the total EU guarantee volume[24] is adequate to cover expected future life-time net losses from the operations guaranteed under the different EFSI windows with a 95% confidence level. This implies that for EFSI the risk exposure – which will result from both the underlying portfolios and their evolution - is in line with the *ex-ante* risk appetite of the Commission.[25]

3.3.2 EFSD

Assumptions and particularities

The EFSD is a budgetary guarantee where the underlying activities are still in the ramp-up phase. A significant number of guarantee agreements have been signed with the counterparts in the second half of 2020, following a restructuring of the guarantee to respond to the COVID-crisis. As a result, many underlying operations still need to be signed and implemented. Meanwhile, the EFSD Guarantee Fund has already been constituted in full. As of August 2021, it has been transferred to the CPF and since then it constitutes a separate compartment thereof.

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22 Which compares to the maximum legislative guarantee ceiling of EUR 26.0 bn.

23 The credit risk model is run on "*Total amount of EU risk for operations signed by Counterparts and disbursed*" in this case the amount signed and disbursed by the EIB group. Results are then extrapolated to include all signed amounts.

24 Taking into consideration recoveries, revenues and reflows from EIBG operations.

25 For the IIW debt product the results of the risk analysis obtained from the credit risk model over a 5 year time horizon indicate a minimum confidence level of 97.1% over this period. This means that, for the IIW debt product, in 97.1% of the cases its provisioning should be sufficient to cover all the outflows over the next 5 years.

For the sustainability assessment of financial and contingent liabilities, the Commission was assisted by the GTAG (the EFSD Guarantee Technical Assessment Group) which has provided the risk metrics of the EFSD using a credit risk model[26].

Assessment of the adequate provisioning of the EFSD Guarantee Fund compartment

The EFSD Regulation[27] (Article 14(5)) has set the target provisioning rate at 50%. At 31 December 2021 the EFSD GF compartment[28] held EUR 795,679,804 of provisioning. This is to be compared to the "total available guarantee amount signed with counterparts" (i.e. the 'ceiling in the guarantee agreements signed and effective' minus 'all net payments that reduce the guarantee cap' minus 'guarantee released') of EUR 1,390,700,000 at 31 December 2021. When the available provisioning is divided by the total available guarantee, the *de facto* provisioning rate is 57.2%. The EFSD GF compartment is therefore fully provisioned now and no new significant inflows[29] are foreseen until the end of the investment period (end 2024). After the end of the investment period, the EFSD GF compartment provisioning level is to be maintained at 50%. Until then, no major disruption or deviation from the target rate is expected.

Assessment of the riskiness of the guaranteed operations as compared to the *ex-ante* risk appetite of the Commission for this programme

The EFSD is still in the ramp-up phase, therefore it is appropriate to look at the full set of operations that is expected to be signed in the future rather than to the operations that have already been signed by the counterparts at 31 December 2021.

The results of the risk analysis obtained from the credit risk model[30] and analysed by the Commission indicate that the amount currently held in the EFSD GF compartment would correspond to a minimum confidence level of 98.5% over the next 5 years. This means that in 98.5% of the cases the provisioning should be sufficient to cover all the outflows over the next 5 years.

If the same exercise is done over the full lifetime of the guarantee, (p.m. the guarantee is expected to remain in place for more than 20 years), a confidence level of 89.7% is reached. Bearing in mind the limitations of forecasting, in particular for such long time periods and taking into account that the EFSD is still in its initial ramp-up phase, this figure can be

[26] All figures and comments in this report are the responsibility of the Commission.

[27] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1601&from=EN

[28] Including the cash buffer held at the central treasury.

[29] A limited amount of recoveries or fee revenue could be expected.

[30] The credit risk model is run on *"Total amount of EU risk for operations signed with Counterparts"*.

considered to be in line with the target confidence level of 90% which for the EFSD programme was defined as the appropriate risk appetite. Hence the expected riskiness of the underlying operations is still in line with what was defined at the outset of the program.

3.3.3 EFSD+

At 31 December 2021 the EFSD+ portfolio only contained one signed and disbursed agreement (COVAX II) for an amount of EUR 200,000,000. The initial EFSD+ provisioning was constituted through the adoption of the Commission Decision on the CPF C(2021)9924 allocating EUR 5,117,619,653 the for open architecture. The initial commitments made in 2021 accounted for 1,342,778, 634 while the payments to the relevant CPF compartment will be made in 2022. Formal reporting on provisioning and riskiness of the guaranteed operations as compared to the *ex-ante* risk appetite will start as of next year.

3.3.4 ELM

Assumptions and particularities

The ELM portfolio consists of several mandates (two mandates under the 2014-2020 MFF, established by one European Parliament and Council Decision, which have been extended to end 2021 plus other previous "legacy" mandates). All underlying operations relate to debt products, most of them with governments as counterparties, with private entities' exposures being the exception (i.e. the ERI[31] Private Mandate and the political risk guarantee under the general mandate). Some operations only benefit from 'political risk cover' (approximately 9% of the outstanding disbursed portfolio as of end-2021) whereas most of them benefit from a 'comprehensive risk cover'.

During the transition period towards NDICI, the Commission is further developing its internal credit risk modelling capacities for the ELM. However, for this year's report, the EIB, who implements the ELM mandates, still supported the Commission by running its credit risk model[32]. For the purpose of the present analysis, political risk has been treated as if it were comprehensive risk, which is a conservative assumption.

For many years, the provisioning for the ELM was held in the Guarantee Fund for External Actions (GFEA), which also held the provisioning for MFA and non-EU Euratom loans. As of August 2021, this Guarantee Fund has been transferred to the Common Provisioning Fund (CPF) and constitutes a separate compartment thereof. In principle, the provisioning is

31 Economic Resilience Initiative, supported under the ELM 2014-20 further on the basis of Decision (EU) 2018/412, amending the original Decision No 466/2014/EU.

32 The EIB has supported the Commission by running its credit risk model based on signed operations. However, the present analysis, parameters used and its interpretation are the sole responsibility of the Commission.

fungible between ELM, MFA and non-EU Euratom loans. For the purpose of this analysis, the assumption is that the available provisioning for ELM is identical to the *pro-rata* part of its CPF compartment corresponding to the size of its outstanding disbursed liabilities.

For the sake of completeness, it should be noted that the GFEA compartment of the CPF follows a slightly different logic than e.g. the EFSI or the EFSD compartments. Indeed, the GFEA compartment rather acts as a liquidity buffer for guarantee calls. It means that the GFEA compartment requires an annual replenishment check. Historically, no *ex-ante* risk appetite in the form of a confidence level has been set for the provisioning to which the current *de facto* one could be compared.

Assessment of the adequate provisioning of the ELM

At 31 December 2021, the ELM pro-rata part of the GFEA compartment[33] amounted to EUR 2,134,195,720. This figure is to be compared with the "total available guaranteed amount signed with Counterparts and disbursed" (i.e. the 'amounts in the guarantee agreements signed, disbursed and effective' minus 'all net payments that reduce the guarantee cap' minus 'guarantee released') of EUR 29,849,377,381 at 31 December 2021. By comparing those two figures, the *de facto* provisioning rate is 7.1%. However, it should be noted that, in line with Article 5 of the GFEA Regulation[34], additional provisioning has already been foreseen in the EU draft budget respectively for 2022 and 2023 so as to approach the target provisioning rate of 9% as defined in Article 3 of that Regulation.

When the assets to be held in the GFEA compartment of the CPF are projected over the next 5 years and compared with the projected "total available Guarantee amount signed with Counterparts and disbursed", it is rather likely that further provisioning will be needed in 2024 until 2026. The corresponding amounts will depend on the calls that will be made on the ELM guarantee in the following years. In any case, the annual top-up of provisioning is not abnormal for the GFEA compartment, which – as explained above – rather acts as a liquidity buffer.

Assessment of the riskiness of the guaranteed operations as compared to the *ex-ante* risk appetite of the Commission for this programme

Based on the results obtained by applying the credit risk model, the ELM-related amount currently held in the GFEA compartment corresponds to a confidence level of about 91% over the next 5 years. In practical terms, this means that in 91% of the cases the provisioning will

[33] Including the cash buffer held at the central treasury, and excluding provisioning replenishments planned to be sourced from the 2021 EU budget but only committed and paid into the GFEA compartment during 2022.

[34] COUNCIL REGULATION (EC, EURATOM) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions.

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0480-20180408&from=EN

be sufficient to cover all the future calls made under the EU guarantee (and the related costs) over the next 5 years. It should however be kept in mind that, as already mentioned above, the GFEA compartment is topped up on a yearly basis in case the amount in the provisioning falls below 9% of the outstanding disbursed amounts guaranteed.

Since the GFEA compartment acts as a liquidity buffer, the Commission has not defined an *ex ante* risk appetite in the form of a confidence level of the provisioning for the lifetime of the operations.

3.4 FINANCIAL ASSISTANCE METHODOLOGY

At present, the Commission is developing its credit risk modelling capacities for sovereign exposures. For the time being, the analysis below is in essence based on expert judgment taking into account a number of qualitative and quantitative elements such as payment defaults, impairment assessment of loans, diversification effects etc.

3.5 ANALYSIS FOR FINANCIAL ASSISTANCE PROGRAMMES

3.5.1 MACRO FINANCIAL ASSISTANCE (MFA) AND EURATOM OPERATIONS

The Macro Financial Assistance ("MFA") programmes represent the bulk of the financial assistance programmes with total MFA loans at the end of 2021 amounting to EUR 7.4 billion EUR. Euratom loans to non-Member States (EUR 300 million at the end of 2021) represent the remainder of the financial assistance programmes.

DG ECFIN – in its capacity of Authorizing Officer of MFA loans- analysed in detail the economic situation of the MFA beneficiaries. When making its assessment, DG ECFIN distinguishes between countries in the Eastern Neighbourhood, the Southern Neighbourhood and the Western Balkans. This analysis made clear that in 2021 most countries reported a solid post-covid recovery but obviously the unprovoked invasion of Russia in Ukraine in 2022 has increased economic uncertainty.

The Authorising Officer confirmed to not have elements to put into question the overall 9% target provisioning rate (which is also set in the NDICI Global Europe Regulation)[35].

When making this assessment, the Authorising officer took into account the following elements:

- There was no MFA payment default in the reporting year 2021, and none in previous years either;

[35] Mutatis mutandis, the same argumentation also applies for the Euratom exposures to non-Member States

- The amount of the impairment allowance to be recognised in the EU accounts 2021 for MFA amounts (EUR 293 million)compared to the total outstanding amount;
- The geographical exposure of MFA loans;
- The MFA programmes' direct link to and contingency on an existing International Monetary Fund programme, which ensures the financial viability of the third country and, thus, the eventual repayment of the Union funds
- The fact that the maturities of the loans related to the countries benefitting from MFA are reasonably well-spread over the current MFF and the subsequent ones.

3.5.2 Post Balance Sheet Developments

As to the external action compartment of the CPF, the analysis above of the ELM and the financial assistance programmes showed that based on the situation as of end 2021, the provisioning of the compartment could be considered in line with the applicable legislation.

The Commission is however following and monitoring new developments very closely, in particular the developments related to Ukraine. On 24 February 2022, Russia made an unprovoked invasion into Ukraine, which longer term could have a direct or indirect impact on certain exposures. At the time of writing, the Commission had direct exposures in the external actions compartment of the CPF to Ukraine in of EUR 8.6 billion. As of 31 December 2021, the EU had granted MFA loans worth EUR 4.4 billion and a Euratom loan worth EUR 300 million. At the same time, at the end of 2021, the portfolio covered under the ELM Mandate also contained disbursed Ukrainian loans of EUR 2 billion. In the meantime, in the first half of 2022, the amount of disbursed ELM loans has further increased by EUR 668 million and the EU has also granted new emergency MFA loans worth EUR 1.2 billion that were disbursed in full. At the time of writing, no Ukrainian exposures were overdue.

3. GLOSSARY

ABS	Asset Backed Security
AECID	Agencia Española de Cooperación Internacional para el Desarrollo
AEGF	African Energy Guarantee Facility
AFD	Agence Française de Développement
AgreenFi	Agricultural and Rural Finance Guarantee Programme
AIP	African Investment Platform
BoP	Balance of Payment
CCS	Cultural and Creative Sector
CDP	Cassa Depositi e Prestiti
COFIDES	Compañía Española de Financiación del Desarrollo
COSME	The EU programme for the Competitiveness of SMEs
COVAX	COVID-19 Vaccines Global Access
CPF	Common Provisioning Fund
EaSI	EU Programme for Employment and Social Innovation
EBRD	European Bank for Reconstruction and Development
EC	European Commission

ECP	European Climate Platform
EEAS	European External Action Service
EFSD	European Fund for Sustainable Development
EFSI	European Fund for Strategic Investments
EFSI GF	Guarantee Fund of the European Fund for Strategic Investments
EFSM	European Financial Stabilisation Mechanism
EGRE NS	European Guarantee for Renewable Energy (Non-Sovereign)
EIB	European Investment Bank
EIF	European Investment Fund
ELM	External Lending Mandate
ERI	Economic Resilience Initiative
ERI TA	Economic Resilience Initiative Technical Assistance
ESIF	European Structural and Investment Funds
ESIF-EAFRD	European Structural and Investment Funds - European Agricultural Fund for Rural Development
EU	European Union
EUR	Euro

EURATOM	European Atomic Energy Community
EURIBOR	Euro Interbank Offered Rate
FI	Financial Instrument
FLP	First Loss Piece
FMO	De Nederlandse Financierings-maatschappij voor Ontwikkelingslanden
FR	Financial Regulation
GDP	Gross Domestic Product
GFEA	Guarantee Fund for External Actions

GTAG	Guarantee Technical Assessment Group
IFC	International Finance Corporation
IIW	Infrastructure and Innovation Window
InclusiFI	The EU Programme for Financial Inclusion
InnovFin	EU Finance for innovators
KfW	Kreditanstalt für Wiederaufbau
LGF	Loan Guarantee Facility
MFA	Macro-Financial Assistance
MFF	Multiannual Financial Framework
MSME	Micro-, Small and Medium-sized Enterprises
NDICI	Neighbourhood, Development and International Cooperation Instrument
NGEU	NextGenerationEU
NIP	Neighbourhood Investment Platform
NPB	National Promotional Bank
PC	Private Credit
PIP	Proposed Investment Programme
RDI	Research, Development and Innovation

RECIDE	Resilient City Development
RRF	Recovery and Resilience Facility
RRT	Residual Risk Tranche
SLP	Second Loss Piece
SME	Small and Medium-sized Enterprise
SMEG	Small and Medium-Sized Enterprise Guarantee
SMEW	Small and Medium-sized Enterprise Window
SURE	Support to Mitigate Unemployment Risks in an Emergency
TA	Technical Assistance
UN	United Nations
USD	United States Dollar

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