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DRAFT GENERAL BUDGET OF THE EUROPEAN UNION

Working Document Part XI

financial year 2022

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 2022

Working Document
Part XI

2021

Directorate-General for Budget

Draft General Budget of the European Union for the Financial Year 2022

Working Document

Part XI

Budgetary Guarantees, Common Provisioning Fund and Contingent Liabilities

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The 2022 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 are presenting the 2021-2027 programmes and their performance framework, and provide details on the resources dedicated to each spending Programme for the period 2014-2020.

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 2019 – 2022 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 2022 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 2021, information on assigned revenue (implementation in 2020 and estimation for 2022), and a progress report on outstanding commitments (RAL) and managing potentially abnormal RAL (PAR) for 2020, 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 XII 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.

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OVERVIEW

The present report provides an analysis of the three budgetary guarantees that were in place at the end of 2020: the European Fund for Strategic Investments (EFSI), the European Fund for Sustainable Development (EFSD) and the External Lending Mandate (ELM)[1]. Each budgetary guarantee has been analysed from a budgetary, financial and operational perspective. The report is in addition complemented by a section on contingent liabilities. The analyses of the sustainability of individual contingent liabilities generated by budgetary guarantees and financial assistance conclude that no provisioning issues have been identified.

Aggregation across the budgetary guarantees is difficult given all three were set up in different periods, for different types of investment and span multiple Multiannual Financial Framework (MFF) periods. Certain general characteristics can be presented to illustrate the present context:

- The three budgetary guarantees have a very different history. ELM came into existence in 1977, EFSI was set up in 2015 and EFSD was created in 2017, with the first guarantee agreement signed at the end of 2018. As a result each budgetary guarantee is at a different stage of implementation, ELM having a long track record of achievement, EFSI being well advanced in implementation with certain targets already fully achieved and EFSD having only recently entered its investment phase.

- The three budgetary guarantees vary in their set-up. ELM offers two types of products (mainly direct sovereign lending and private lending) and operates with EIB. EFSI is structured into two windows (with several products under each window) but still relies solely on the EIB Group. EFSD is a pioneer in extending the invitation to other financial institutions (guarantee agreements signed with ten counterparts) where each guarantee agreement covers a different financial product. These new features (variety of products and increased number of counterparts) will also be part of the design of the new budgetary guarantees InvestEU and EFSD+.

- The three guarantees have a different scope. EFSI helps overcome investment gaps within the EU, while ELM and EFSD are part of the external policy field (with ELM focusing on sovereign counterparts and EFSD on private counterparts).

- This variety in focus leads to different risk profiles, which also explains the different provisioning rates for each budgetary guarantee. EFSI's maximum guarantee amounts to EUR 26 billion and has a target provisioning rate of 35%, while the respective

[1] The first analysis of InvestEU and EFSD+ will take place in next year's report as neither guarantee was yet active at the time of the relevant reporting period. For similar reasons, no analysis of the Common Provisioning Fund is provided (for more details on this point, please see the introduction).

figures for EFSD are EUR 1.55 billion and 50%, and for ELM EUR 70.87 billion and a provisioning rate of 9%. It should be noted that ELM provisioning follows a different logic than EFSI or EFSD, with the GFEA acting as a liquidity buffer for guarantee calls and not necessarily being seen as an estimate for lifetime provisioning.

- As at the end of 2020, the total EU risk for the three budgetary guarantees based on operations signed amounts to EUR 57.2 billion (EUR 24.1 billion for EFSI, 0.4 billion EUR for EFSD and 32.7 billion EUR for ELM).

- As a result of these budgetary efforts, the following stand-out results have been achieved:

- For EFSI, 590 711 final recipients have been supported. EFSI mobilised over EUR 347 billion financing to final recipients for total investments of EUR 479.5 billion.

- Under the recently set up EFSD, EUR 42.6 million of disbursed operations have been recorded. EFSD has also played a crucial role in financing COVAX.

- The ELM guarantee has transferred EUR 70.87 billion to 648 final recipients and triggered investments by final recipients of EUR 142.7 billion.

INTRODUCTION

This is the first version of the report which the Commission shall produce under Article 41(5) of the 2018 Financial Regulation (FR)[2]. This article requires the Commission to attach to the draft annual budget a 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 will follow this structure, with a separate section on each of the three topics mentioned above. However, since the Common Provisioning Fund has been set up only recently and as will be explained in more detail below, this year's Article 41(5) report will not include a section on the Common Provisioning Fund.

As for the section on contingent liabilities, the Article 41(5) report will assess the sustainability of the Union's individual guarantees. A consolidated aggregate assessment of the Union's contingent exposures will be provided by the Article 250 FR report through which the Commission will report annually 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 each section's content will be provided. How each section fits with the requirements of Article 41(5) FR will also be explained.

1. **Budgetary Guarantees**

This section will cover the entire implementation period from the launch of each given budgetary guarantee until 31st December of the reference year (2020 for this year's report). Concretely, it shall cover three budgetary guarantees, one of which is part of the Commission's internal policy actions (the European Fund for Strategic Investments (EFSI)), the other two of which fall under the Commission's external policy actions (the European Fund for Sustainable Development (EFSD) and the External Lending Mandate (ELM)). Please note that for InvestEU and EFSD+, no transactions were yet signed at the end of the reporting period. Therefore, these budgetary guarantees will not be reported in this year's Article 41(5) FR report, although they will form part of future versions of this report.

As per the relevant provisions of Article 41(5) FR, analysis of each individual budgetary guarantee will come in three parts with the following information:

[2] 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.

- 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

In Article 212, 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 of 26 February 2021[3], the Commission informed of the entry into operation of the CPF in 2021, along with the new 2021-2027 Multi-Annual Financial Framework (MFF).

Therefore, this year's report will not contain a section on the CPF, as the reporting period for this year's Article 41(5) report only covers operations until the end of 2020. However, in future years, when the relevant legislative acts enter into force and when CPF becomes active, this section of the report will provide the following information:

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.

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

[3] 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.

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 31/12/2020**
26,000,000,000	26,000,000,000	26,000,000,00
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 01 04 04 — Guarantee for the European Fund for Strategic Investments (EFSI) Article 01 04 05 — Provisioning of the EFSI guarantee fund		

	Cumulative to 2020	2021*	2022**	2023-2027	Total
Budgetary commitment appropriations (in EUR)	8,868,047,892	199,000,000	32,952,108	0	9,100,000,000
of which from voted budget	8,425,000,367	0	0	0	8,425,000,367
of which from internal assigned revenues	443,047,525	199,000,000	32,952,108	N/A	674,999,633
of which from external assigned revenues	0	N/A	N/A	N/A	0
Budgetary payment appropriations (in EUR)	7,936,665,954	743,366,192	419,967,854	0	9,100,000,000
of which from voted budget	7,512,984,621	525,000,000	387,015,746	0	8,425,000,367
of which from internal assigned revenues	423,681,333	218,366,192	32,952,108	N/A	674,999,633
of which from external assigned revenues	0	N/A	N/A	N/A	

** Figures include EUR 90 000 000 from CEF Debt Instrument (FLP release), which are expected to be received in 2021.*
***Figures include part of EFSI assigned revenues in 2022, which are necessary to reach the target size of EFSI provisioning (EUR 9.1 billion).*

General description

The European Fund for Strategic Investments (EFSI) is an initiative to help overcome the current investment gap in the EU. Jointly launched by the European Commission and the European Investment Bank (EIB) Group, its purpose is to mobilise private investment in projects which are strategically important.

EFSI was established by Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015. On 30 December 2017, EFSI was 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 by ensuring that money would reach the real economy. With the EFSI support through a budgetary guarantee, the EIB Group is providing funding for economically viable projects, especially for projects with a higher risk profile than those usually financed by the EIB. The focus is on the following sectors of key importance for the European economy:

- 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

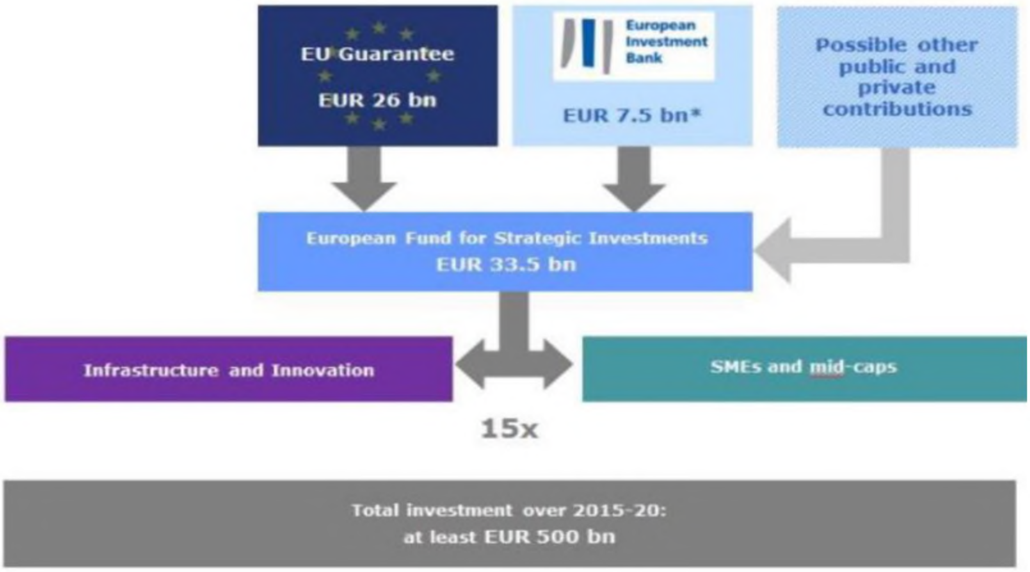
EFSI is a EUR 26 billion budgetary guarantee from the EU budget, complemented by a EUR 7.5 billion allocation of the EIB's own resources. The total amount of EUR 33.5 billion should unlock additional investments of at least EUR 500 billion by 31 December 2020.

In 2020, EFSI continued making progress towards its defined objectives, in particular on the climate target of 40%, on the investment mobilised, as well as the impact on jobs and growth. As at 31 December 2020, EUR 102.8 billion of EFSI financing was approved by the EIB Group for a total investment value of EUR 545.3 billion, thus exceeding the €500 billion end-2020 target. Out of this, EUR 82.8 billion of EFSI financing was signed for a total investment value of EUR 479.5 billion.

To alleviate the impact of COVID-19 pandemic on the economy, EFSI available resources under the SMEW were re-allocated among existing SMEW products. Based on the resources unlocked from EFSI, the EIF provided guarantees worth EUR 2.2 billion to financial intermediaries, making available EUR 8 billion in available financing for businesses, including micro and social enterprises as well as small and medium size enterprises (SMEs) in the cultural and creative sectors. Furthermore, in order to provide support to final recipients as fast as possible, the EFSI Steering Board simplified the approval process for specific operations with COVID-19 features.

The EU Guarantee under EFSI can be called to cover guarantee calls and recovery costs for debt-type operations and value adjustments, funding costs and recovery costs for equity-type operations. Although the cumulative amount of guarantees called until the end of 2020 is about EUR 167 million, an increase in the number and volume of future guarantee calls can be expected, due to the current economic situation caused by the COVID-19 pandemic.

Implementation diagram**



** Contributions from EIB own resources.*

***As at December 2020 EFSI financing approved by the EIB Group implied a total investment value of EUR 545.3 billion, thus exceeding the EUR 500 billion end-2020 target.*

Implementation arrangements

EFSI is a budgetary guarantee implemented under indirect management by the EIB Group. To this end, an agreement on the management of EFSI and on the granting of the EU Guarantee was signed with the EIB on 22 July 2015.

In order to cover the risks relating to the EU guarantee, a guarantee fund (the EFSI Guarantee Fund) has been established. The provisioning of the EFSI Guarantee Fund is set at 35% of the EU guarantee of maximum EUR 26 billion. As at 31 December 2020, the cumulative provisioning amounted to EUR 8.9 billion, out of which EUR 8.425 billion from the EU budget and EUR 443 million from assigned revenues. Out of this, EUR 7.9 billion was already paid to the EFSI Guarantee Fund (EUR 7.513 billion from the EU budget and EUR 424 million from assigned revenues).

The assets of the EFSI Guarantee Fund are managed by the Commission and invested in accordance with the principle of sound financial management and following appropriate prudential rules. The total assets of the EFSI Guarantee Fund stood at EUR 8.028 billion as at 31 December 2020.

Duration

EFSI was set up in July 2015 and was extended by the EFSI 2.0 Regulation in 2017. 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.

Added Value

Since 2008, the EU has been suffering from low levels of investment. Collective and coordinated efforts at European level were 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 the 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.

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

Action at the Union level allows for economies of scale: the Union budget funds are combined with the EIB Group financing. They catalyse private investment across the Union and make best use of expertise and knowledge for that purpose. 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 the EFSI contribute to achieving 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 the EIB and the EIF should apply their respective rules, policies and procedures, including the EIB Group NCJ Policy and the EIB Group Anti-Money Laundering and Combating Financing of Terrorism Framework, to address the requirements in respect of money laundering, terrorism financing, tax avoidance, tax fraud, tax evasion contained in 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.

Moreover, the annual EIB EFSI report to the European Parliament and the Council also discusses the compliance with Article 155.2 (b). None of the EFSI Guaranteed Operations signed were entered into with Financial Intermediaries incorporated in non-cooperative jurisdictions.

Currently, no issues have been reported by the EIB Group.

Support combined with other Union actions

As at 31 December 2020, 58 EFSI operations benefited from EU contributions other than EFSI, an increase of some 14% compared to end-2019. Of these operations, 51 are under the IIW and 7 are under the SMEW. More details are available in the table below:

	Operations co-financed with ESIF/EU funds	
	Number	Total Signed Amount (EUR, m)
IIW	51	4768.25
SMEW	7	127.96
Aggregated	58	4,896.22

Under SMEW, operations relate to investments into equity funds from ESIF and EFSI. With respect to the ESFI Combination 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 up to EUR 20m, EUR 15m and EUR 6m 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 European Investment Bank Group financing and investment operations in priority areas. As at 31 December 2020, EFSI enabled the EIB Group to sign 1 421 EFSI riskier financing and investment for the total amount of nearly EUR 83 billion. Out of this amount EUR 43 billion was already disbursed by EIB group either to the financial intermediaries or to the final recipients (in the case of direct operations). This translates into significant investments in final recipients. At the end of 2020 more than 590 thousands final recipients in different economic sectors received already EFSI support. EFSI mobilised over EUR 347 billion financing to final recipients for total investments of EUR 479 billion.

EFSI operations were structured to maximise, where possible, the mobilisation of private sector capital. Of the EUR 479 billion of total investment mobilised under EFSI, EUR 329 billion involve private sector resources, which represents almost 70%.

EFSI was designed with an investment target and an associated target multiplier of 15x. The EUR 500 billion target of investment mobilised is to be delivered based on an overall combined contribution of EUR 33.5 billion from both the EU guarantee and the EIB's own resources. As at 31 December 2020, the multiplier was 15.46, slightly above the target of 15x.

The leverage and multiplier ratio calculated as provided in the below table do not take into account the fact that the EFSI guarantee is provisioned with 35%.

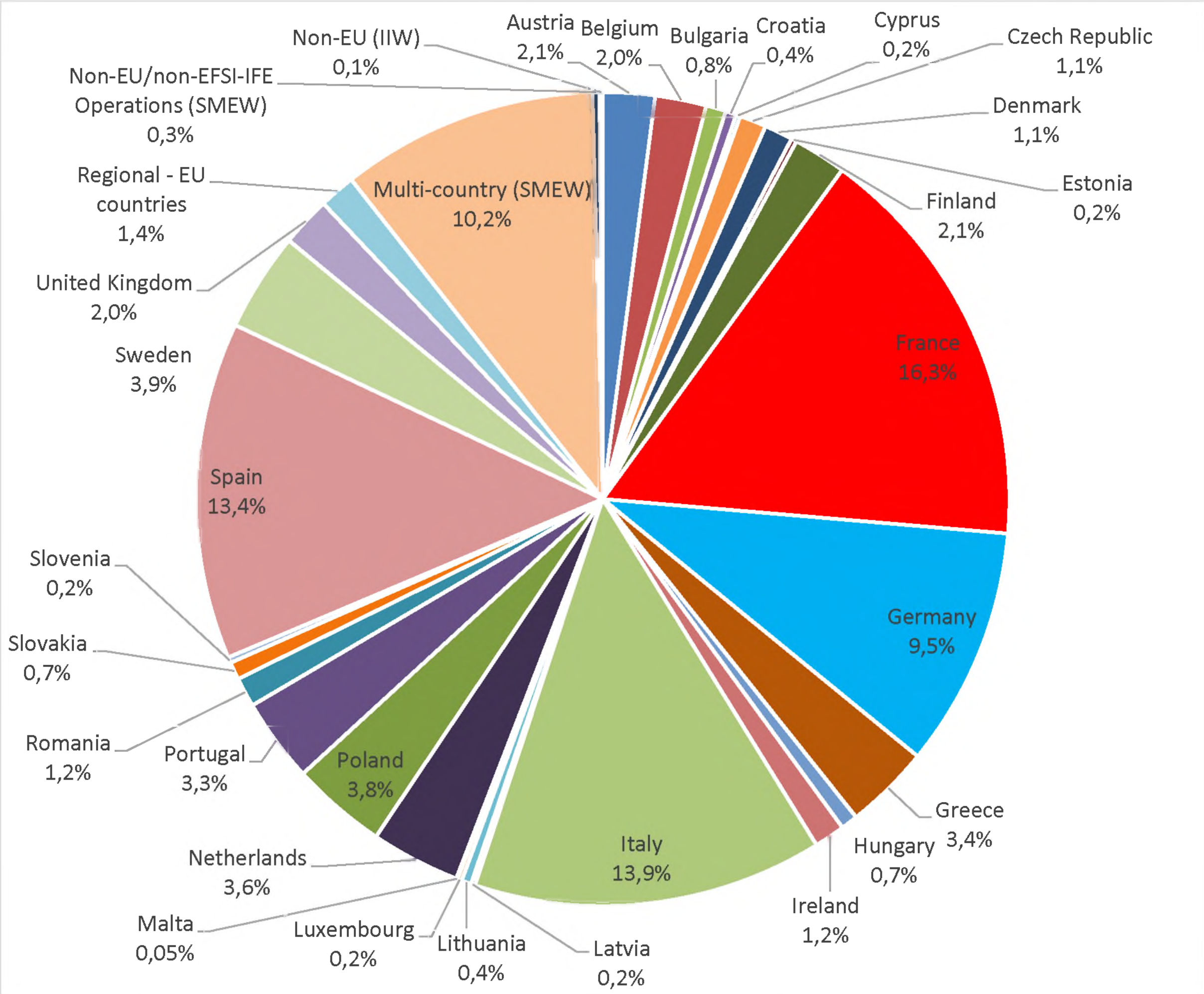
The following table summarizes the key operational figures presented above:

Key Figures (as at 31/12/2020)

Total amount of operations signed by counterparts (in EUR)	82,755,988,906
Total amount of operations disbursed (in EUR)	47,592,963,887
Amount transferred to final recipients (in EUR)	347,443,078,249
Number of final recipients	590,711
Investments made by final recipients	479,505,382,554
Private sector resources mobilised	328,751,593,946
Leverage (ratio)	11.45
Multiplier effect (ratio)	15.46

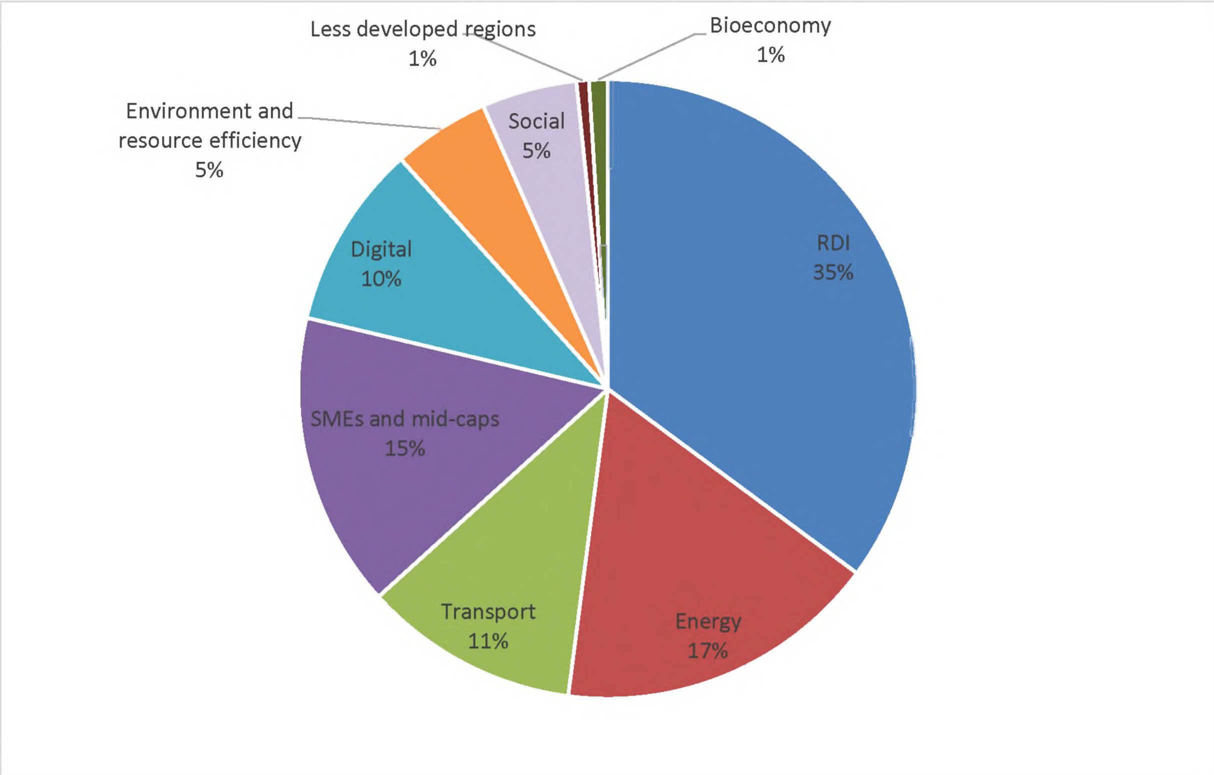
Geographical diversification

As at 31 December 2020, operations were signed in the 27 EU Member States and the UK, with the largest amounts signed in France (EUR 13.5 billion), Italy (EUR 11.5 billion), Spain (EUR 11 billion) and Germany (EUR 7.8 billion). However, in terms of the signed amounts relative to GDP, the top beneficiary countries were Greece, Portugal, Bulgaria and Spain.



Sectoral diversification

As at 31 December 2020, operations were signed across 9 different sectors for a total amount of EUR 82.7 billion. The largest amounts were signed in Research Development & Innovation (RDI) (operations signed for EUR 29 billion), Energy (operations signed for EUR 14 billion) and SME and mid-caps (operations signed for EUR 12.7 billion) sectors.



Contribution to the achievement of the EFSI objectives

The objective of the EFSI to mobilise EUR 500 billion investments by 2020 has been achieved and exceeded (over EUR 545.3 billion investments in approved operations at the end of 2020). This amount of investment is mobilised through 1549 approved operations implemented in 28 countries. In addition to sectoral coverage (as presented above) in total 43.1% of EFSI financing in the Infrastructure and Innovation Window supports project components that contribute to climate action.

1.1.3 FINANCIAL INFORMATION[4]

Financial information at the level of budgetary guarantee

The available EU guarantee under EFSI, after deducting guarantee calls and other expenses covered by the EU guarantee, amounted to EUR 25.8 billion at the end of 2020. It covers the risk related to the operations signed by the EIB Group up to EUR 24.1 billion (EUR 18.5 billion for the IIW and EUR 5.6 billion for SME window). The EU risk at the level of outstanding EFSI operations disbursed by the EIB Group, (or by financial intermediaries in case of guarantee products) totals EUR 18.9 billion as at 31 December 2020 (EUR 16.5 billion for the IIW and EUR 2.4 billion for SME window).

all figures in EUR

	EU contingent and financial liability	
	31/12/2020	31/12/2019
Available guarantee signed with counterparts	25,833,270,443	25,870,702,652
EU risk for operations signed by counterparts	24,121,520,893	21,882,510,152
EU risk for operations signed by counterparts and disbursed	18,880,064,873	17,707,847,587

Under the EFSI Agreement, the EU has a right to the remuneration for the guarantee provided. Up to the end of 2020, the EU has received EUR 705 million of the revenues from the EIB, mainly from the IIW debt products, where the risk-related revenues from the EIB debt operations are shared between EU and the EIB in the way commensurate to the risk taken. The revenues earned by the EU has been partially used to cover the guarantee calls, fees and other expenses incurred under the EU guarantee under EFSI, while the remaining part has been recovered to the EU budget as internal assigned revenues and used for the constitution of the EFSI guarantee fund.

all figures in EUR

	EU guarantee revenues	
	2020	Cumulative until 31-12-2020
EU guarantee revenues	283,880,771	705,191,038

To date, the EU covered EUR 159 million of guarantee calls made by the EIB Group, of which EUR 82 million related to two defaulted operation from IIW portfolios and EUR 77 million stemming from the guarantee calls for the negative value adjustments of the EIB equity or quasi-equity operations (decrease in the fair value of investments). Would the value of those investments increase in the future, the amount called will be reimbursed to the EU.

[4] The financial data were taken from the EFSI audited financial report or operational reports as appropriate.

With respect to the defaulted operations, recovery proceedings are undertaken by the EIB on behalf of the EU for as long as possible recovery proceedings are likely to result in recovery of sums in excess of the costs of such recovery. The recoveries received so far amounted to EUR 2 million.

all figures in EUR

	Guarantee calls and recoveries	
	2020	Cumulative until 31-12-2020
Guarantee calls	33,077,830	159,419,229
Recoveries	0	1,555,897
Net guarantee calls	33,077,830	157,863,331

The cumulative fees due to the EIF for the implementation of the products under the SME window total EUR 177 million, which were mainly covered by the revenues due to EU under the guarantee. In addition, EU has incurred EUR 12 million of other expenses, of which EUR 5 million related to the EIB funding costs in relation to the amounts disbursed by the EIB for the equity products and EUR 3 million - to the recovery costs.

all figures in EUR

	Expenses	
	2020	Cumulative until 31-12-2020
Fees to counterparts	75,185,456	176,623,542
Other expenses (recovery costs, funding costs, other)	5,679,798	11,505,050

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 at 31/12/2020

	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	First Loss Piece - 100% (EU guarantee)	First Loss Piece - 100% (EU guarantee)	Pari passu - 50% (EU Guarantee) & 50% (EIB)	First Loss Piece - 95% (EU Guarantee) & 5% (EIB)
Cumulative operations signed by counterpart	45,115,948,975	5,226,710,694	6,522,917,236	344,960,812
Cumulative operations disbursed by counterpart	30,115,042,943	4,432,119,365	2,850,716,881	42,090,140
EU contingent and financial liability				
Available guarantee signed with counterpart	13,159,460,319	2,000,000,000	3,415,368,032	508,442,713
EU risk for operations signed by counterpart	13,159,460,319	2,000,000,000	3,059,561,172	326,490,232
EU risk for operations signed by counterpart and disbursed	13,159,460,319	2,000,000,000	1,323,888,339	37,530,680
Cumulative guarantee calls and recoveries				
Cumulative guarantee calls	78,499,551	0	79,477,018	1,442,660
Cumulative recoveries	1,555,897	0	0	0
Cumulative net guarantee calls	76,943,653	0	79,477,018	1,442,660
Notes	The EU guarantee wascalled 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 one defaulted operation in 2019. In addition, it covered value adjustments, funding costs and recovery costs for equity operations.	The EU guarantee was called to cover value adjustments for equity NPB operations.
Cumulative expenses				
Fees to counterpart	0	0	0	0
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	3,596,027	0	5,154,949	114,627

all figures in EUR as at 31/12/2020

	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 istroduced 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	Second Loss Piece	Second Loss Piece	Second Loss Piece	Second Loss Piece
Cumulative operations signed by counterpart	12,079,477,922	2,364,528,011	314,042,107	190,563,332
Cumulative operations disbursed by counterpart	7,420,040,956	1,374,243,243	142,354,510	58,638,010
Notes	Amount of disbursed EFSI eligible operations for each is the best estimate based on the reporting available at the combined level of the EU financial isntrument and the EFSI enhancement			
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	1,343,815,516	1,239,043,405	271,144,699	66,035,421
EU risk for operations signed by counterpart and disbursed	1,343,815,516	237,300,380	53,195,311	0
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			There were amounts drawn for non-euro hedging, which however did not reduce the available EU guarantee	
Cumulative expenses				
Fees to counterpart	42,200,000	20,430,000	5,490,000	3,272,500
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	0	0	0	0

all figures in EUR as at 31/12/2020

	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	Yes
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	2,319,999,378	430,000,000	250,000,000	0
Operation type	Equity	Equity	Equity	Guarantee
Risk-sharing structure	Parri-passu	Pari-passu with Counterpart in Senior tranche	First Loss Piece	First Loss Piece
Cumulative operations signed by counterpart	2,200,699,891	1,421,408,527	704,150,000	0
Cumulative operations disbursed by counterpart	604,254,986	399,395,023	150,832,092	0
EU contingent and financial liability				
Available guarantee signed with counterpart	2,320,000,000	430,000,000	250,000,000	0
EU risk for operations signed by counterpart	1,983,789,897	368,942,963	213,750,000	0
EU risk for operations signed by counterpart and disbursed	574,042,236	0	150,832,092	0
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
Cumulative expenses				
Fees to counterpart	88,632,603		9,768,616	0
Other expenses (recovery costs, funding costs, other) cumulative over all mandates	2,639,447		0	0

all figures in EUR as at 31/12/2020

	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	Second Loss Piece	Second Loss piece (Share class with lower risk-return profile)	First Loss Piece
Cumulative operations signed by counterpart	98,774,964	37,471,473	10,168,695
Cumulative operations disbursed by counterpart	3,235,739	0	0
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	44,897,710	37,471,473	7,118,086
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
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	3,949,823	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		
EFSD Regulation 2017/1601		
Maximum amount of budgetary guarantee (in EUR)	**of which signed with counterparts**	**of which effective at 31/12/2020**
1,548,968,935	1,548,700,000	1,370,700,000
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 2020	**2021**	**2022**	**2023-2027**	**Total**
Budgetary commitment appropriations (in EUR)	798,968,935	0	0	0	798,968,935
of which from voted budget	350,000,000	0	0	0	350,000,000
of which from internal assigned revenues	0	N/A	N/A	N/A	0
of which from external assigned revenues	448,968,935	N/A	N/A	N/A	448,968,935
Budgetary payment appropriations (in EUR)	798,968,935	0	0	0	798,968,935
of which from voted budget	350,000,000	0	0	0	350,000,000
of which from internal assigned revenues	0	N/A	N/A	N/A	0
of which from external assigned revenues	448,968,935	N/A	N/A	N/A	448,968,935

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 financing already available and financing still needed to meet the UN Sustainable Development Goals. The EFSD Guarantee serves as a risk mitigation mechanism to leverage public and private sector financing whilst avoiding market distortions and with a view to crowd-in private sector funds. This is a new way of financing development projects. The EFSD Guarantee shares the risks involved in lending and investing so that development banks and private investors come in and lend to local entrepreneurs or finance development projects. In doing so, the EFSD Guarantee contributes to job creation and boosts economies. More jobs and higher growth make countries more stable and prosperous. By supporting investments, the EFSD Guarantee consequently addresses the 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 the following 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 2017.

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

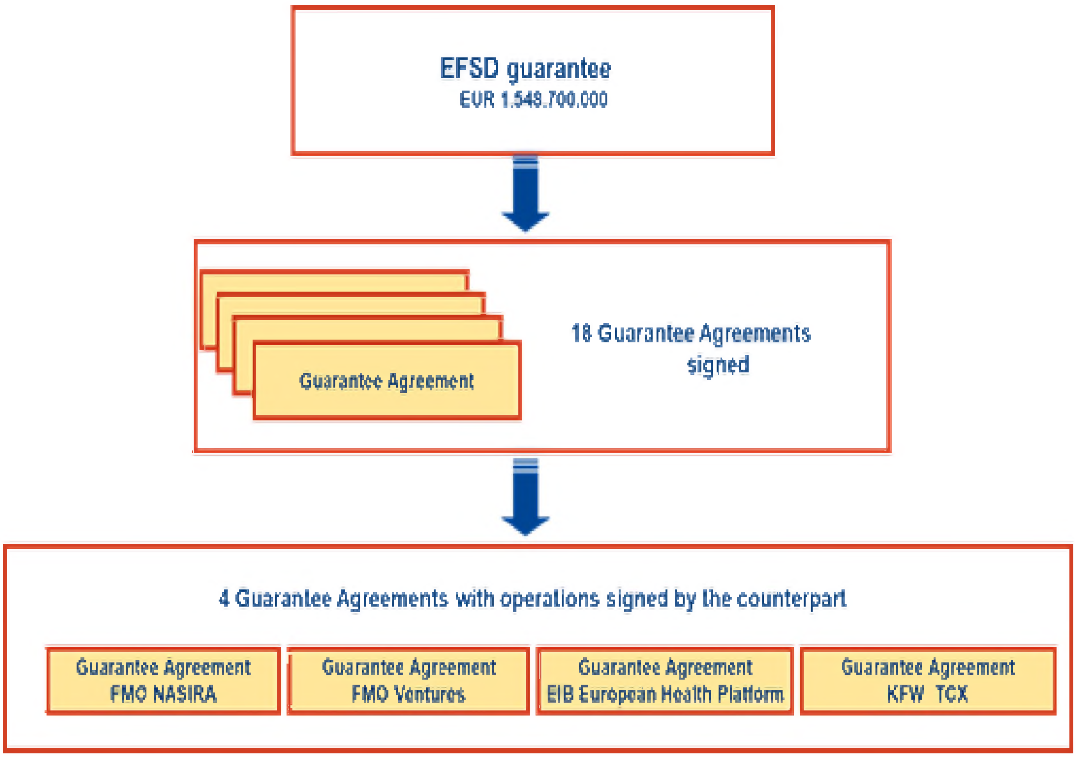
The response by the Financial Institutions was very positive. The EFSD was heavily oversubscribed (i.e. requests from the Financial Institutions exceeded the capacity of the EFSD Guarantee by over EUR 2 billion). The Commission received 46 proposals from 12 partner institutions for a total value of more than EUR 3.5 billion. Such a large number of requests reveal that there is a significant gap in the market that the EFSD is filling, precisely one of the objectives of the EFSD.

The EFSD Regulation sets an ambitious target for the contracting period i.e. 31 December 2020. The financial structures involved required significant negotiations between the Commission, the partner Financial Institutions, and the Guarantee Technical Assessment Group, 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, and the remaining 11 in 2020 displaying the exponential growth in the speed and capacity of the 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 worth EUR 1.5487 billion (of which EUR 48.7 million as a result of additional contributions from donors). All commitment and payment appropriations for the year 2020 were fully exhausted.

Implementation diagram as at 31 December 2020



Implementation arrangements

The EFSD Guarantee is 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.

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.

All eligible counterparts to a guarantee agreement must be pillar-assessed entities. At the present stage, these entities are all public institutions or private institutions with a public service mission, i.e. national or multilateral development finance institutions.

In guarantee agreements with the counterparts the Result Measurement Framework established by the Commission will be reflected. It 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 list of indicators, the frequency and format of reporting are part of the guarantee agreements signed with the financial institutions.

Duration

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 recipients. As a rule, the duration of the guarantees extended to eligible counterparts under each guarantee agreement should not 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 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. 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. The 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. Currently, no issues have been reported by financial institutions.

Support combined with other Union actions

In 2020, the EU contributed over EUR 111 million through Technical Assistance agreements accompanying the EFSD guarantee agreements. Two types of technical assistance were funded. These focused on: (1) projects – enabling development banks and investors to develop high-quality projects which the EFSD can help to finance and (2) investment climate support – enabling governments to enact reforms to make their countries more attractive places to invest in.

1.2.2 Operational Performance

The investment period of EFSD has only recently begun and the duration of many of the guarantees is more than ten years. This means that in practice the banks are starting to sign the underlying agreements and that the data on the achievement of the objectives of the budgetary guarantee as measured by the indicators established will be provided in 2022. At the end of 2020 the counterparts signed operations for the amount of EUR 472.9 million. 9% of this amount i.e. EUR 42.6 million were disbursed to the financial intermediaries. Resources mobilised by the private sector amount to EUR 34.4 million.

The average leverage and multiplier of 1.07 are based on the transactions made so far and do not take into account the level of provisioning which is 50%.

At such an early stage of implementation, a limited number of transactions were made. Regarding NASIRA, one investment was made in 2020 with a leverage ratio of 1:14,8, taking into account EFSD's internal built in leverage of 2x. (linked to the provisioning rate of 50%). In the case of Ventures, nine investments concluded in 2020 reached a leverage ratio of 1:5,98. (taking into account the provisioning rate of 50%) EUR 400 million invested in COVAX was not designed to leverage EU funding.

The following table summarizes the key operational figures presented above:

Key Figures (as at 31/12/2020)

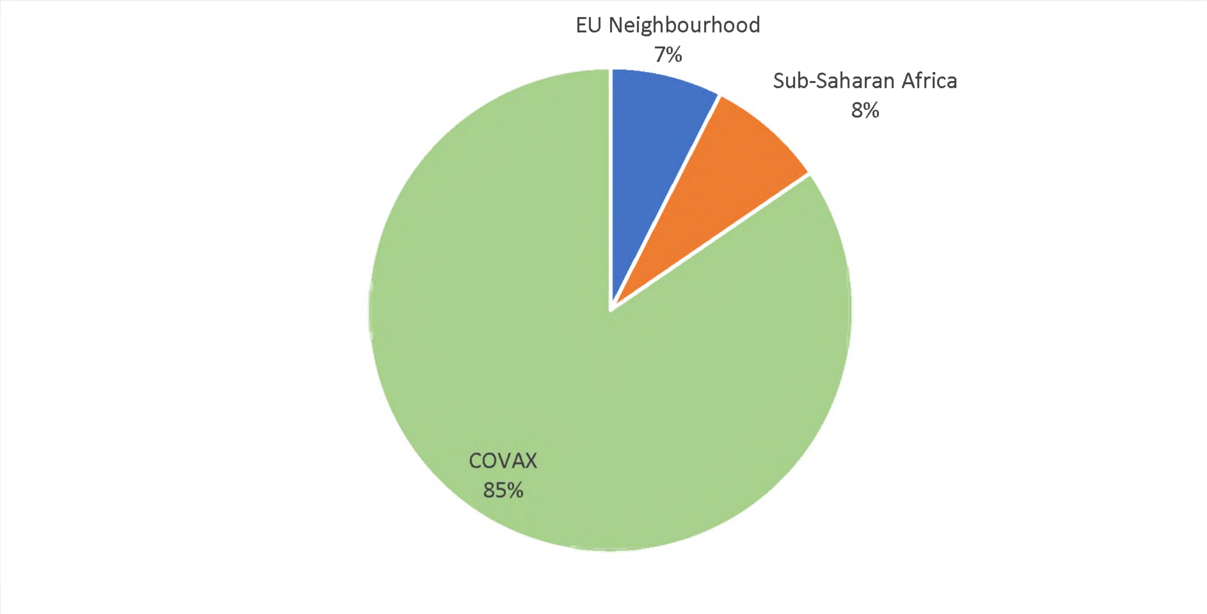
Total amount of operations signed by counterparts (in EUR)	**472,982,026**
Total amount of operations disbursed (in EUR)	**42,679,576**
Amount transferred to final recipients (in EUR)	**0**
Number of final recipients	**0**
Investments made by final recipients	**0**
Private sector resources mobilised (in EUR)	**34,422,122**
Leverage (ratio)	**1.07**
Multiplier effect (ratio)	**1.07**

Covid-19 crisis response

In the course of 2020, as the Covid-19 virus spread around the globe, the Commission decided to use the EFSD Guarantee as a tool to help Partner Countries overcome the crisis. This meant that the EFSD Guarantee needed to adapt quickly to the economic needs created by the global pandemic. This meant a focus on Micro, Small and Medium-Sized enterprises (MSMEs), local currency financing, and support to the health sector. Previously signed agreements covering MSME financing were topped up, new agreements were negotiated and signed. A particularly important shift was a new agreement to provide EUR 400 million in financing towards the distribution of Covid-19 vaccines to Partner Countries. To create space for the new initiatives in response to Covid-19, several guarantees were postponed to the successor instrument, the ESFD+ Guarantee.

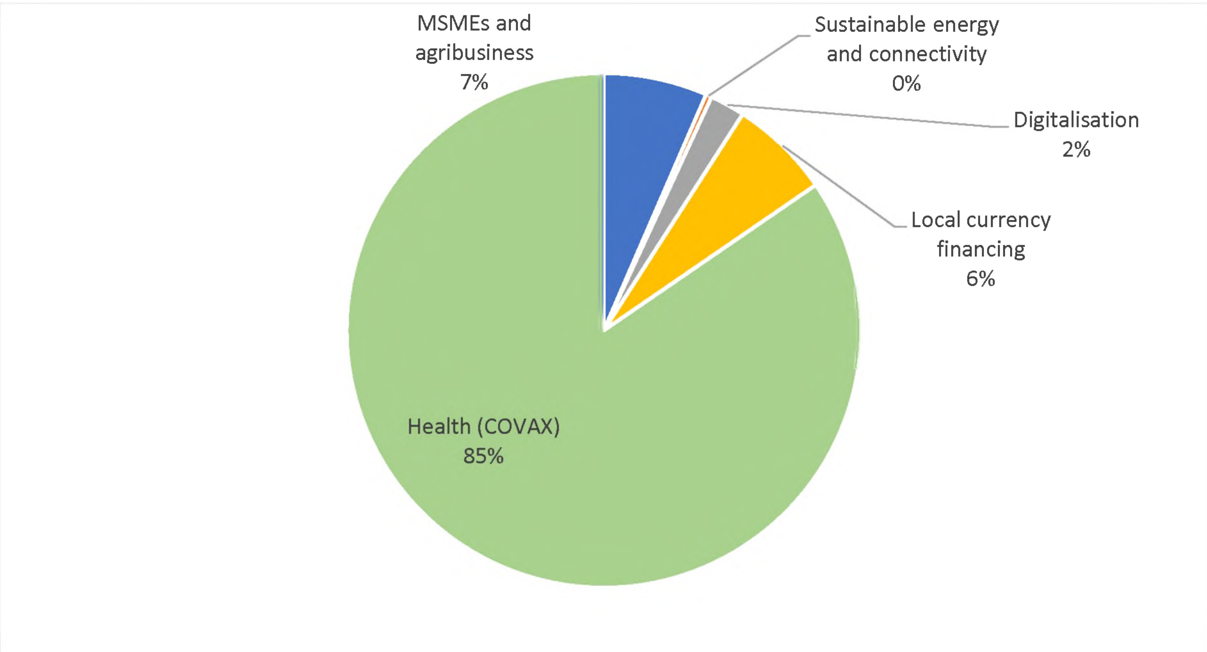
Geographical diversification

As at 31/12/2020, EUR 35 million (7% out of the total operations signed) went to EU Neighbourhood, EUR 38 million (8%) went to Sub-Saharan Africa and EUR 400 million (85%) went to COVAX (COVAX is not yet allocated to specific regions as its use is needs-dependent. A spread per region will however be possible as of next year).



Sectoral diversification

As at 31/12/2020, EUR 31 million went to MSMEs and Agribusiness (7% out of the total operations signed) EUR 2 million (0%) went to Sustainable energy and creativity, EUR 10 million (2%) went to Digitalisation, EUR 30 million went to local currency financing (6%) and EUR 400 million (85%) went to Health in relation to COVAX.



1.2.3 FINANCIAL INFORMATION

Financial information at the level of budgetary guarantee

all figures in EUR

	EU contingent and financial liability	
	31/12/2020	31/12/2019
Available guarantee signed with counterparts	1,370,700,000	50,000,000
EU risk for operations signed by counterparts	438,564,528	0
EU risk for operations signed by counterparts and disbursed	34,517,441	0

As at 31 December 2020, fifteen EFSD guarantee agreements were effective with the total guarantee cover limit amounting at EUR 1 371 million, while another three agreements were signed but not yet effective for the total amount of EUR 178 million. The operations signed by the counterparts and guaranteed by the EU under those agreements totalled EUR 473 million, with the EU risk for those operations capped at EUR 439 million. The EU guarantee related to the amounts disbursed by the counterparts amounted to EU 35 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 received by the end of 2020.

The following table presents detailed information for each EFSD guarantee agreement.

Financial information at the level of guarantee agreement

all figures in EUR and as at 31/12/2020

	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	30,804,450	12,117,576	0
Cumulative operations disbursed by counterpart	30,804,450	12,117,576	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	4,508,283	4,056,245	0
EU risk for operations signed by counterpart and disbursed	461,196	4,056,245	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 at 31/12/2020

	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. This matters because public money is insufficient to cover the large-scale investment needed, and private investment can help make projects operate more efficiently. 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 CO_2 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: - energy efficiency - flood protection - public transport - water and sanitation - 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 guarantees	Portfolio guarantees
Risk-sharing structure	First loss, Pari Passu	First loss	Second 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	50,000,000	0	46,000,000
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

all figures in EUR and as at 31/12/2020

	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.	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	The COVAX part of this PIP features a full guarantee; the Non-COVAX part is first loss	First loss
Cumulative operations signed by counterpart	0	400,000,000	0
Cumulative operations disbursed by counterpart	0	0	0
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	0	400,000,000	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

all figures in EUR and as at 31/12/2020

	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	0	0	0
Cumulative operations disbursed by counterpart	0	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	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

all figures in EUR and as at 31/12/2020

	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	No
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	0	30,000,000	0
Cumulative operations disbursed by counterpart	0	30,000,000	0
EU contingent and financial liability			
Available guarantee signed with counterpart	68,200,000	145,000,000	0
EU risk for operations signed by counterpart	0	30,000,000	0
EU risk for operations signed by counterpart and disbursed	0	30,000,000	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 as at 31/12/2020

	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	of which effective at 31/12/2020
70,869,500,000	70,869,500,000	70,869,500,000
of which ceiling authorised in the legal basis (in EUR)	**Counterparts**	
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 action 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 2020	2021	2022	2023-2027	Total
Budgetary commitment appropriations* (in EUR)	1,181,680,333	0	0	0	1,181,680,333
of which from voted budget	1,071,680,333				1,071,680,333
of which from internal assigned revenues	0	N/A	N/A	N/A	0
of which from external assigned revenues	110,000,000	N/A	N/A	N/A	110,000,000
Budgetary payment appropriations* (in EUR)	1,181,680,333				1,181,680,333
of which from voted budget	1,071,680,333				1,071,680,333
of which from internal assigned revenues	0	N/A	N/A	N/A	0
of which from external assigned revenues	110,000,000	N/A	N/A	N/A	110,000,000

* *In accordance with Article 5 of Regulation No 480/2009 establishing a Guarantee Fund for external actions, the provisioning of the Fund is calculated based on the difference between the target amount, which is 9 % of the total outstanding capital liabilities of not only the current ELM and its predecessor mandates but also macro-financial assistance (MFA) loans and external Euratom loans, and the value of the Fund's net assets. This means that the provisioning of the ELM is fungible with the provisioning of MFA and a small amount of external Euratom loans. The figures in the above table therefore includes also the provisioning for the latter guaranteed loans. The ELM represents however the majority (88 % at the end of 2020) of the total outstanding disbursed capital liabilities covered by the EU guarantee. It can be noted that the share of ELM in the total outstanding has decreased over the course of the previous MFF, due to increasing net disbursements of MFA loans.*

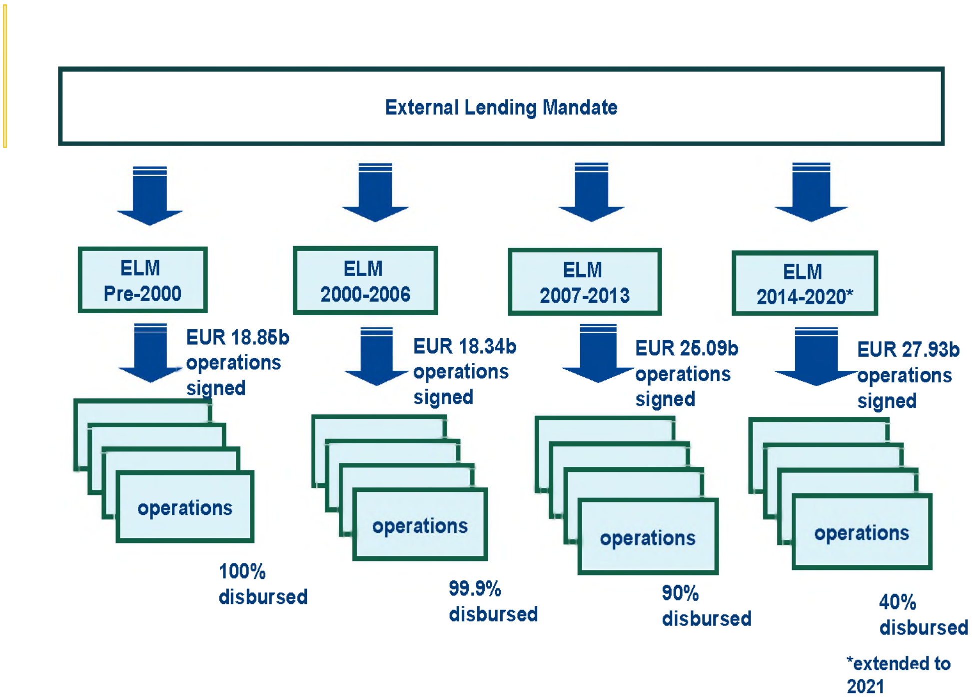
General description

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). In particular, these decisions lay down 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 are currently eligible for EIB financing operations under the EU budgetary guarantee. Based on the ELM Decision No 466/2014/EU, the Commission has concluded a Guarantee Agreement with the EIB in 2014, amended and restated in 2018. One amendment of the ELM Guarantee Agreement was concluded in 2020 to increase the country limit for Lebanon within the ERI Private Mandate; and one additional amendment is planned in 2021 to extend the duration of the ELM guarantee cover until end-2021 as foreseen in the NDICI – Global Europe Regulation.

In response to the 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 has been 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 has been created to guarantee private-sector investments supporting long-term economic resilience.

Since the amendment of the ELM Decision in 2018, the EU budget can guarantee 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) of EIB operations for 2014-2020, with a commitment to cover the losses that may arise in the guaranteed portfolio up to 65% of the total guaranteed portfolio. 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."*

Implementation diagram as at 31 December 2020



Implementation arrangements

The External Lending Mandate of the EIB has been a feature of 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.

The ELM and the EU guarantee that sustains it has been renewed over the years through a number of mandates granted by the European Parliament and the Council formalized through the corresponding Decisions.

Duration

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 it is currently in the process of being extended until end-2021 as per Article 49 of the NDICI – Global Europe Regulation.

Added value

The EU budgetary guarantee provided in the framework of the ELM serves the main purpose of supporting EU policy objectives by enhancing the risk-bearing capacity of the EIB and thus enabling the EIB to finance a number of operations outside the EU that otherwise could 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 adequately address policy objectives and fulfil a number of conditions established by the European Parliament and Council.

Hence, the EIB financing operations undertaken in the framework of the ELM serve as an important vehicle to pursue the objectives of the Union's external policy as laid down in the corresponding Decisions. In particular, Decision (EU) 2018/412 underlines that the ELM´s value added 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 for ELM operations to 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 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 has in place an Anti-Money Laundering and Counter Terrorism Financing framework (last revised in December 2020). Such 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.

Currently, no issues have been reported by the EIB.

Support combined with other Union actions

ELM guarantee is combined with grant support. In 2020, the EIB approved 20 new grants fully or partially funded from EU budget for a total of EUR 254.58 million for implementation by the EIB in ELM regions. Of these, EUR 36.42 million was Technical Assistance (TA), EUR 124.7 million Investment Grants, EUR 92.91 million Financial Instruments (FI). In addition, 14 ERI TA operations were approved for a total amount of EUR 16.59 million.

13 EIB projects signed in 2020 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. In relation to this last point, during 2020, the EIB remained very active in seeking and implementing grant contributions under the EU regional blending facilities for the Neighbourhood (NIP) and Africa (AIP). Specifically, the volume of grants approved in 2020 funded from EU Budget or from the EIB own resources complementing ELM operations amount to EUR 731.17 million.

1.3.2 OPERATIONAL PERFORMANCE

As at 31.12.2020, the total amount of operations signed by EIB on all ELM mandates amounts to EUR 90 201 432985 and the total amount of operations disbursed amount to EUR 70 871 643 196 (the majority of which has been reimbursed today). It is also worth noting that there have been 648 final recipients on all ELM mandates on 1619 contracts.

Since 2000, EUR 142,7 billion represents the amount estimated to be invested by EIB final recipients (borrowers) over time in relation to the EUR 70,872 billion of EIB lending guaranteed by the EU under the ELM mandates (i.e. mandates 2000-2007, 2007-2013 and 2014-2020). As a rule, the EIB co-finances up to 50% of total project costs. There are a number of exceptions to this rule, where the EIB could finance a higher proportion of project costs, for example 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 2014-2020, the amount of EUR 16,48 billion related to private sector resources represents almost 59% of all signatures during the ELM 2014-2020 period and is calculated based on EIB's signatures for private sector development.

As regards the leverage and multiplier, they take into account that EU guarantee covers 65% of EIB lending and EIB on average covers 50% of project costs. 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%. This feature of the guarantee significantly increases the effective leverage from 1.53 to 17 and the multiplier from 3.07 to 34.

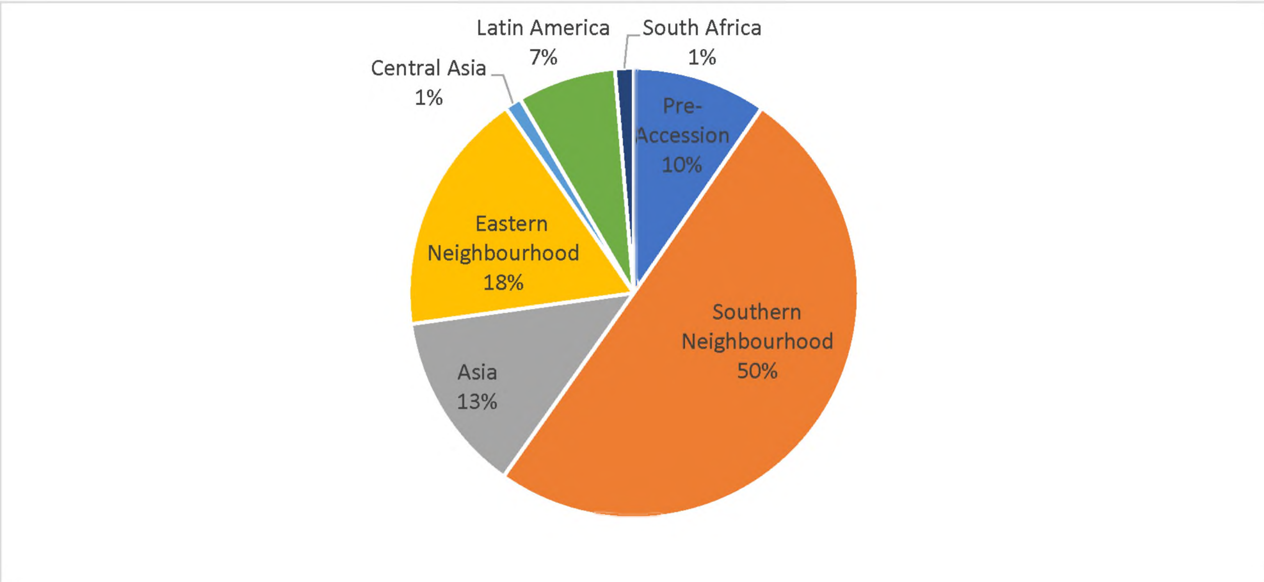
The following table summarizes the key operational figures presented above:

Key Figures (as at 31/12/2020)

Total amount of operations signed by counterparts (in EUR)	90,201,432,985
Total amount of operations disbursed (in EUR)	70,871,643,196
Amount transferred to final recipients (in EUR)	70,871,643,196
Number of final recipients	648
Investments made by final recipients	142,700,000,000
Private sector resources mobilised	16,480,000,000
Leverage (ratio)	1.53
Multiplier effect (ratio)	3.07

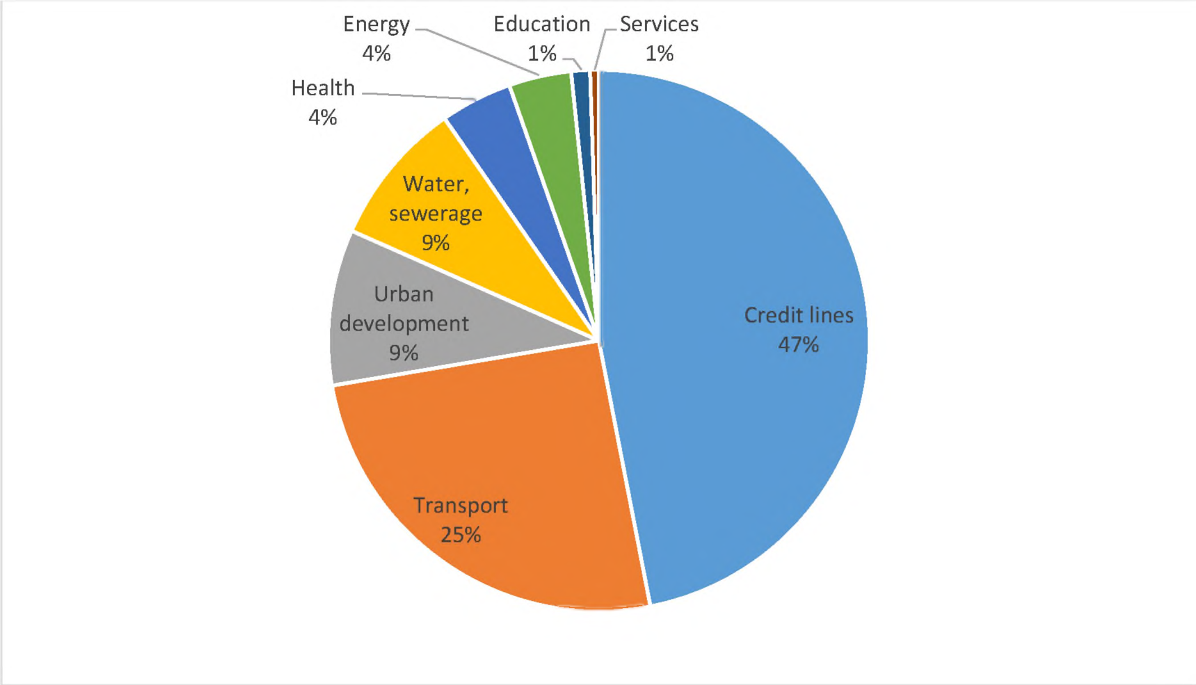
Geographical diversification

In 2020, EUR 661 million (10% out of the total operations signed) went to Pre-Accession, EUR 3.4 billion (50%) went to Southern Neighbourhood, EUR 1.2 billion (18%) went to Eastern Neighbourhood, EUR 889 million (13%) went to Asia, EUR 82 million (1%) went to Central Asia, EUR 486 million went to Latin America (7%) and EUR 93 million (1%) went to South Africa.



Sectoral diversification

In 2020, EUR 2.7 billion (47% out of the total operations signed) went to Credit Lines, EUR 1.4 billion (25%) went to Transport, EUR 538 million (9%) went to Urban Development, EUR 502 million (9%) went to Water and Sewage, EUR 248 million (4%) went to Health, EUR 216 million (4%) went to Energy, EUR 65 million (1%) went to Education and EUR 30 million (1%) went to Services.



Contribution to the achievement of the ELM objectives

In 2020, 53% of operations signed contribute to the development of social and economic infrastructure. The remaining 47% of operation contributed to the development of local private sector. At the same time, out of the total 3046 signed operations, 28% contribute to the climate objective (climate action), 11% to the regional integration and 6 % to the economic resilience.

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 2020, the amount of outstanding ELM loans disbursed to final recipients totalled EUR 29 billion, with the EU guarantee limited to EUR 20.3 billion. This included EUR 740 million of loans granted 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 32.7 billion. However, the EIB may continue approving and signing operations up to the maximum ceiling provided in the 2014-2020 mandate of EUR 32.3 billion, leading to a maximum EU exposure of EUR 35.6 billion at the end of 2021, following the ELM's one year prolongation.

all figures in EUR

	EU contingent and financial liability	
	31/12/2020	31/12/2019
Available guarantee signed with counterparts	35,574,705,504	38,098,295,641
EU risk for operations signed by counterparts	32,732,338,059	31,690,542,924
EU risk for operations signed by counterparts and disbursed	20,252,214,418	20,183,738,784

A total of EUR 565 million of guarantee calls have been made by the EIB on the EU guarantee in relation to operations in Syria and Tunisia, including all called amounts (principal, interests, penalties and others), of which EUR 3 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.

In accordance with the Recovery Agreement, the EIB submits yearly to the EC a detailed report on recovery actions undertaken on amounts called under the EU Guarantee. Specifically, the 2020 report refers to overdue amounts related to a number of EIB financing operations in Syria (all of which fall under pre-2014 mandates) and to the amounts called under Political Risk Guarantee for the loan operation Aéroport Enfidha (Tunisia), covered under the 2007-13 external mandate.

More specifically, Syria started defaulting in December 2011. The EIB since then has been repeatedly calling on the EU guarantee (approx. EUR 448 million of principal has been called as of end-2020). In accordance with the ELM Guarantee Agreement and Recovery Agreement, the EIB pursues efforts to recover the overdue amounts and the EU is subrogated in relation to the amounts that have been called.

In 2017 the EIB initiated legal proceedings against Syria, following in-depth consultations with Commission services and the EEAS. In June 2018, the English High Court granted a summary judgment in favour of the EU and the EIB. One year later, in 2019, the EU and the EIB obtained nine separate judgments in their favour from the General Court. Together, these

10 judgements cover approximately EUR 380 million of EIB/EU claims. Syria was also ordered to pay the contractual rate of interest on the awarded sum of each contract under the English claim (EURIBOR+2%). No sums have been paid by Syria to date.

all figures in EUR

	Guarantee calls and recoveries	
	2020	Cumulative until 31-12-2020
Guarantee calls	52,434,350	565,364,043
Recoveries	705,327	2,990,765
Net guarantee calls	51,729,023	562,373,277

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 11 million of revenues has been received from EIB by the end of 2020.

all figures in EUR

	EU guarantee revenues	
	2020	Cumulative until 31-12-2020
EU guarantee revenues	9,084,830	11,240,321.09

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). Nevertheless, the EU has reimbursed the EIB for the recovery costs.

all figures in EUR

	Expenses	
	2020	Cumulative until 31-12-2020
Fees to counterparts	0	0
Other expenses (recovery costs, funding costs, other)	35,152	2,145,956

The following table presents detailed information at the level of subsequent ELM mandates.

Financial information at the level of mandate

all figures in EUR as at 31/12/2020

	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	19,165,000,000	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	27,929,000,000	25,089,000,000	18,335,000,000	18,849,688,455
Cumulative operations disbursed by counterpart	11,098,000,000	22,627,000,000	18,297,489,234	18,849,688,455
EU contingent and financial liability				
Available guarantee signed with counterpart	19,843,131,035	10,682,934,841	4,686,096,253	362,543,377
EU risk for operations signed by counterpart	17,000,763,589	10,682,934,841	4,686,096,253	362,543,377
EU risk for operations signed by counterpart and disbursed	6,191,238,971	9,050,335,817	4,648,096,253	362,543,377
Cumulative guarantee calls and recoveries				
Cumulative guarantee calls	0	91,206,492	335,170,047	138,987,504
Cumulative recoveries	0	841,420	2,149,346	0
Cumulative net guarantee calls	0	90,365,071	333,020,701	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	2,145,956			

2. ASSESSMENT OF CONTINGENT LIABILITIES GENERATED BY BUDGETARY GUARANTEES AND FINANCIAL ASSISTANCE

2.1 INITIAL REMARKS

Contingent liabilities are potential financial liabilities of the EU 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 and ELM programmes. For InvestEU and EFSD+, at the end of the 2020 reporting period, no transactions were signed yet as both programmes will be implemented starting from 2021. Under all budgetary guarantee instruments, the EU (partially) guarantees implementing partners for their losses emanating from financial and investment operations (debt or equity) covered 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. Those third country loans are financed via ‘back-to-back’ borrowing which means that each loan to a third country is funded via an EU bond issued on the financial markets that completely matches 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 loans under NGEU).

Exposures for this type of contingent liability are not provisioned but their sustainability assessment will be presented in the Article 250 FR report. The analysis carried out in this Article 41(5) report focuses on the sustainability of contingent liabilities arising from provisioned instruments, in other words to those contingent liabilities which stem from budgetary guarantees and financial assistance to third countries.

2.2 BUDGETARY GUARANTEES METHODOLOGY

Assumptions and particularities

The risk implied in contingent liabilities for budgetary guarantees is - to an important extent - assessed with the help of “credit risk models”, which are an important tool to estimate future losses resulting from budgetary guarantees as a way to complement the analysis and to quantitatively support the assessment by the Commission services in charge of implementing the specific programmes. Such mathematical/statistical credit risk models use pragmatic assumptions to model the underlying operations and then provide estimates of the expected losses and the uncertainty around those expected loss estimates (and hence provide information on the confidence one can have that the provisioning in the guarantee fund will suffice to cover actual losses). Obviously, models as such can only provide an estimate of future losses on the underlying operations under certain assumptions so that it cannot be excluded that the actual future losses will deviate from the forecasts.

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

Finally, it can also be mentioned that the Commission is further developing a full-fledged credit risk model that can be used across the board for all types of budgetary guarantees. Also methodologies that are currently used (e.g. for equity instruments) are refined on a continuous basis as experience is being built up over the years. Those developments will help the Commission in the future to further fine-tune its approach to risk assessment and monitoring.

Assessment of the adequate provisioning of the Guarantee Fund

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. 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 2020 and 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.

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 that the current provisioning (i.e. the amount available in the guarantee fund) will be sufficient to cover the losses of the programme over a certain time period.

The analysis 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 the lifetime figure, for comparison with the initial pre-defined risk appetite of the program[5].

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

2.3 ANALYSIS FOR BUDGETARY GUARANTEE PROGRAMMES

2.3.1 EFSI

Assumptions and particularities

The EFSI fund consists of two windows (IIW and SME) that both have debt and equity products. The Commission uses a credit risk model for the IIW debt operations. For the SMEW and IIW equity operations, 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

The EFSI Regulation[6] - 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 31/12/2020 the EFSI GF held provisions worth EUR 8 027 966 332. 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' minus 'released guarantees') of EUR 25 833 270 443 at 31/12/2020[7]. When the available provisioning is divided by the total available Guarantee amount as defined above, the *de facto* provisioning rate is 31.3%, but the EFSI GF is still in the build-up phase until 2022. In other words, further provisioning from the EU budget and reflows are foreseen in 2021 and 2022 to complete the constitution of the guarantee fund. Only at a later stage, 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 annual report on the management of the Guarantee Fund of the EFSI (the "EFSI GF") - required by Article 16(6) of the EFSI Regulation - includes, *inter alia,* an assessment of the adequacy of the target amount and the level of the EFSI GF and its potential replenishment need.

The analysis confirmed that, taking into consideration the results of the credit risk model 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 2020, the applicable provisioning rate of 35% of the total EU guarantee volume[8] is adequate to cover expected future 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

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

[7] Which compares to the maximum legislative guarantee ceiling of EUR 26.0 bn.

[8] Taking into consideration recoveries, revenues and reflows from EIB operations.

both the underlying portfolios and their evolution - is in line with the *ex-ante* risk appetite of the Commission.

2.3.2 EFSD

Assumptions and particularities

The EFSD is a budgetary guarantee, which is still in the ramp-up phase. A significant number of the 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, and hence many underlying operations still need to be signed and implemented. The EFSD Guarantee Fund has in the meanwhile already been constituted in full. For the assessment of the sustainability of financial and contingent liabilities, the Commission is assisted by the GTAG (EFSD Guarantee Technical Assessment Group) which has provided the risk metrics of the EFSD using a credit risk model[9].

Assessment of the adequate provisioning of the EFSD Guarantee Fund

The EFSD Regulation[10] (Article 14(5)) has set the target rate for the provisioning at 50%. At 31/12/2020 the EFSD GF held EUR 804 116 637 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 1 370 700 000 at 31/12/2020. When the available provisioning is divided by the total available guarantee, the *de facto* provisioning rate is 59%. In addition, EUR 178 000 000 of guarantee agreements were signed in 2020 but were not effective yet by 31/12/2020. Once effective, the *de facto* provisioning rate would stand at 52%. The EFSD GF is therefore fully provisioned now and no new significant inflows[11] are foreseen until the end of the investment period (end 2024) after which the Guarantee Fund is to be maintained at the 50% provisioning level. 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 31/12/2020.

The results of the risk analysis obtained from the credit risk model and analysed by the Commission indicate that the amount currently held in the EFSD GF would correspond to a minimum confidence level of 99% over the next 5 years. This means that in 99% of the cases the provisioning should be sufficient to cover all the outflows over the next 5 years.

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

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

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

If the same exercise is done over the full lifetime of the guarantee, foreseen to expire in more than 20 years, a confidence level of 88.4% is reached. Bearing in mind the limitations of forecasting, notably at such very long term and in view of the EFSD being in its initial ramp-up phase, this can be considered to be in line with the target confidence level of 90% which was defined for the EFSD programme as the appropriate risk appetite and hence the expected riskiness of the underlying operations is still in line with what was defined at the outset of the program.

2.3.3 ELM

Assumptions and particularities

The ELM portfolio consists of multiple mandates (two mandates under the 2014-2020 MFF, established by one EP and Council Decision, which have been extended to end 2021 but also other legacy mandates). All underlying operations relate to debt products, most of them with governments as counterparties, with private entities' exposures being the exception (ERI mandate and political risk guarantee under the general mandate). Some guarantees only benefit from political risk cover but most of them benefit from a comprehensive guarantee.

During the transition period towards NDICI, the Commission is further developing its internal credit risk modelling capacities for the ELM but for this year's report, the EIB, who implements the ELM mandates, has supported the Commission by running its credit risk model for those sovereign operations which are covered by the comprehensive risk guarantee (92% of the ELM portfolio)[12]. For the purpose of this analysis, the conservative assumption was chosen that those operations only benefiting from political risk coverage would follow the same loss-pattern as operations benefiting from a comprehensive risk coverage.

The provisioning for the ELM is held in the Guarantee Fund for external actions (GFEA), which also holds the provisioning for MFA and non-EU Euratom loans. In principle, the provisioning is fungible between these programs. For the purpose of this analysis, the assumption is that the available provisioning for ELM is identical to its pro-rata part of the GFEA corresponding to the size of its outstanding disbursed liabilities.

For the sake of completeness, it should be noted that the GFEA follows a slightly different logic than e.g. the EFSI GF or EFSD GF. Indeed, the GFEA rather acts as a liquidity buffer for guarantee calls and should not necessarily be seen as an estimate for lifetime provisioning. This means that the GFEA might need more frequent top-ups and it also means 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 31/12/2020 the ELM pro-rata part of the GFEA provisions would amount to EUR 2 346 551 113. This figure is to be compared with the "total available guaranteed amount signed

[12] The EIB has supported the Commission but the present analysis, parameters used and its interpretation are the sole responsibility of the Commission

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 27 799 526 364 EUR at 31/12/2020. By comparing those two figures, we arrive at a *de facto* provisioning rate of 8.4%. However, it should be noted that in line with Article 5 of the GFEA Regulation[13], additional provisioning has already been foreseen in the EU budget and draft budget respectively for 2021 and 2022 to reach 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 (*pro memoria*, in 2021 the GFEA will be merged into the CPF) are projected over the next 5 years and compared with the projected "total available Guarantee amount signed with Counterparts and disbursed", it cannot be excluded that further provisioning may be needed in 2023 until 2025. The amounts will depend on the calls that are made in the following years. In any case, the annual top-up of provisioning is not abnormal for the GFEA, 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

According to the calculations of the Credit Risk Model, the amount currently held in the GFEA (corresponding to the "ELM exposure benefiting from the comprehensive guarantee", i.e. not including the political risk guarantee, stands at 2 158 827 024 EUR) would correspond to a confidence level of about 91% over the next 5 years. This means that the risk model shows that in 91% of the cases the provisioning will be sufficient to cover all the costs/calls over the next 5 years. It should however be kept in mind that, as mentioned above, the GFEA is topped up on a yearly basis in case the amount in the Guarantee Fund falls below 9% of the outstanding guaranteed amounts.

Since the GFEA 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. We can therefore not make a comparison and evaluation for this metric for the ELM.

2.4 FINANCIAL ASSISTANCE METHODOLOGY

At present, the Commission is developing its credit risk modelling capacities for sovereign exposures. The analysis below is therefore 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.

[13] 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

2.5 ANALYSIS FOR FINANCIAL ASSISTANCE PROGRAMMES

2.5.1 MACRO FINANCIAL ASSISTANCE (MFA) OPERATIONS

Having noted:

- that there was no payment default in the reporting year 2020, and none in previous years, in relation to countries that have benefitted from MFA;

- that the 2020 impairment assessment of loans carried out by the Commission concluded that there is no need to book any accounting impairment;

- the geographical exposure of the Macro-Financial Assistance programmes;

- 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 Commission has no elements at this stage to put into question the 9% target provisioning rate. This rate was deemed "*optimal*" in a 2016 consultancy report[14] evaluating the adequacy of the Guarantee Fund of External Actions, and was thereby recommended to be maintained. Furthermore, more recently, the Council and the European Parliament in the context of the Neighbourhood, Development and International Cooperation Instrument-Global Europe (NDICI) Regulation negotiations (provisionally) endorsed the 9% target rate for MFA operations.

2.5.2 EURATOM LOANS TO THIRD COUNTRIES

Having noted:

- that there has not been any payment default in the reporting year 2020 and none in previous years, in relation to entities that have benefitted from Euratom loans;

- that the 2020 impairment assessment of loans carried out by the Commission concluded that there is no need to book any accounting impairment.

The Commission has no elements at this stage to put into question the 9% target provisioning rate. This rate was deemed "*optimal*" in a 2016 consultancy report[15] evaluating the adequacy of the Guarantee Fund of External Actions, and was thereby recommended to be maintained. Furthermore, more recently, the Council and the European Parliament in the context of the negotiations on the European Instrument for International Nuclear Safety Cooperation complementing the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI) Regulation (provisionally) endorsed the 9% target rate for EURATOM operations.

[14] GOPA consultants, July 2016, Report for the European Commission, DG ECFIN, Executive Summary, Evaluation of the Guarantee Fund for External Actions, Framework Contract N°: 11111.2013.001-2013.251 LOT 1, Specific contract Ref. N°: ECFIN-151-2015.

[15] Idem.

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
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
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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