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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on guarantees covered by the general budget
Situation at 31 December 2018

{SWD(2019) 379 final}

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1. INTRODUCTION

The objective of this report is to monitor the credit risks borne by the EU budget resulting from the guarantees given for lending operations implemented directly by the European Union or indirectly through the guarantee granted for EIB financing projects outside the Union.

This report is submitted pursuant to Article 149 of the previous Financial Regulation[1] which was still applicable for part of 2018. Hence, this report on EU budget guarantees and the corresponding risks for the year 2018 is submitted for the last time and will be replaced by the future reporting scheme foreseen in the new Financial Regulation.

The report is structured as follows: Section 2 recalls the key features of the operations guaranteed by the EU budget; several other additional crisis management mechanisms, which do not imply any risk for the EU budget, are also presented. Section 3 lays out the evolution of the guaranteed operations. Section 4 highlights the main risks covered by the EU budget. Section 5 outlines the activation of the guarantees and the evolution of the Guarantee Fund for external actions ("the Fund")[2] while section 6 outlines the evolution of the European Fund for Strategic Investments (EFSI)[3].

A Commission Staff Working Document (SWD) complements this report with a set of detailed tables and explanatory notes. It also provides a macroeconomic analysis of the countries benefitting from EU loans and/or guarantees, representing the bulk of the exposure of the Fund.

2. OPERATIONS GUARANTEED BY THE EU BUDGET AND CRISIS MECHANISMS OF THE EURO-AREA NOT COVERED BY THE EU BUDGET

The risks covered by the EU budget derive from a variety of lending and guarantee operations which can be divided into four categories:

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1 Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

2 Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external actions (OJ L 293, 12.11.1994, p. 1), and subsequently amended by Council Regulation (EC, Euratom) No 480/2009 (OJ L 145, 10.6.2009, p. 10) and Regulation (EU) 2018/409 (OJ L 76, 19.3.2018, p. 1), the "Guarantee Fund Regulation".

3 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 (the "EFSI Regulation") OJ L 169, 1.7.2015, p. 1. The EFSI Regulation was amended by Regulation (EU) 2017/2396 of the European Parliament and Council of 13 December 2017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub (the "EFSI 2.0 Amendment") OJ L 345, 27.12.2017, p. 34. The EFSI 2.0 Amendment increased, inter alia, the size of the EU Guarantee and adjusted the target rate. The agreement on the management of the EFSI and on the granting of the EU Guarantee (the "EFSI Agreement") was signed by the European Commission and the European Investment Bank (the "EIB") on 22 July 2015 and was amended and restated on 21 July 2016, 21 November 2017, 9 March 2018 and December 2018.

2.1 Loans granted by the European Union with macroeconomic objectives

Such loans comprise (1) Macro-Financial Assistance[4] ("MFA") loans to third countries, (2) Balance-of-Payments[5] ("BOP") loans granting support to non-euro Member States experiencing balance-of-payments difficulties and (3) loans under the European Financial Stabilisation Mechanism ("EFSM")[6] granting support to all Member States experiencing or seriously threatened with a severe economic financial disturbance caused by exceptional occurrences beyond their control. They are activated in conjunction with financial support by the International Monetary Fund (IMF).

2.2 Loans with microeconomic objectives

This heading refers to Euratom loans[7]. The Euratom loan facility may be used:

- *[in Member States]:* investments in nuclear power stations and in industrial installations in the nuclear fuel cycle [8] and

- *[in certain non-member countries]:* investments to improve the safety and efficiency of nuclear power stations that exist or are under construction, as well as decommissioning projects[9].

2.3 European Investment Bank ("EIB") financing of operations in non-Member States ("EIB external financing") covered by EU guarantees[10] (ELM).

Under the External Lending Mandate (ELM), the EU provides a guarantee from the EU budget to enable the EIB to increase its lending outside the EU in support of EU policies. The ELM supports EIB activity in the pre-accession countries, the Eastern and Southern Neighbourhood, Asia, Latin America and South Africa. Under the current ELM period (2014-2020), the EU budget guarantees up to EUR 32.3 billion of EIB operations. On 14 March 2018, the European Parliament and the Council adopted the Decision (EU) 2018/412 amending Decision No 466/2014/EU in the context of the mid-term review of the ELM notably increasing the maximum ceiling for the current ELM from EUR 27 billion to EUR 32.3 billion. This review adds a new objective of 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.

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4 MFA may also take the form of grants to third countries (not covered by this report). References to legal bases are listed in the Annex of Table A2B of the SWD.

5 Council Regulation (EC) N° 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments (OJ L 53, 23.2.2002, p.1).

6 Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism (OJ L 118, 12.5.2010, p.1).

7 Treaty dated 25 March 1957 establishing The European Atomic Energy Community (Euratom) as amended and supplemented.

8 For Member States: Council Decision 77/270/Euratom of 29 March 1977 empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations (Official Journal n° L 88 of 6 April 1977, p. 9) as amended and supplemented.

9 For certain non-Member States: Council Decision 94/179/Euratom of 21 March 1994 (Official Journal n° L 84 of 29 March 1994) amending Decision 77/270/Euratom, to authorize the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non- member countries..

10 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 investment projects outside the Union (OJ L135 of 8.5.2014, p.1).

The EU guarantee to the EIB covers risks of a sovereign and political nature in connection with its financing operations carried out outside the Union in support of the Union's external policy objectives. In addition, the EIB finances investment operations outside the Union at its own risk, as well as activities under specific mandates such as in ACP countries.[11]

With a view to supporting Union external action, and in order to enable the EIB to finance investments outside the Union without affecting the credit standing of the EIB, the majority of its operations outside the Union benefit from an EU budgetary guarantee.

Guarantee Fund for External Actions[12]

The guaranteed EIB external financing, MFA and Euratom loans to third countries have since 1994 been covered by the Guarantee Fund for External Actions ("the Fund"), while BOP, EFSM and Euratom loans to Member States are directly covered by the EU budget.

The Fund covers defaults on loans and loan guarantees granted to non-Member States or for projects in non-Member States. It was established:

- to provide a 'liquidity cushion' in order to avoid calling on the EU budget every time a default or late payment on a guaranteed loan arises; and

- to create an instrument of budgetary discipline by laying down a financial framework for the development of the EU policy on guarantees for EU and EIB loans to third countries[13].

If third countries become Member States, loans relating to such countries are no longer covered by the Fund and the risk has to be directly borne by the EU budget. The Fund is provisioned from the EU budget and has to be maintained at a certain percentage of the outstanding amount of the loans and loan guarantees covered by the Fund. This percentage, known as the target rate, is currently 9%[14]. If resources of the Fund are not sufficient, the EU budget will provide the necessary funds. The assets of the Fund are managed by the EIB.

2.4 European Investment Bank ("EIB") and European Investment Fund ("EIF") financing of operations in Member States covered by EU guarantees - The European Fund for Strategic Investments (EFSI)

The European Fund for Strategic Investments (EFSI) is the core of the investment plan for Europe, aimed at boosting long-term economic growth and competitiveness in the European Union.

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[11] The ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000, was concluded for a 20-year period from 2000 to 2020. It is the most comprehensive partnership agreement between developing countries and the EU. It is not financed by the EU budget.

[12] Council Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for external actions (OJ L 145, 10.6.2009, p. 10) as amended by Regulation (EU) 2018/409 (OJ L 76, 19.3.2018, p. 1).

[13] Although external risks are covered *in fine* by the EU budget, the Guarantee Fund acts as an instrument to protect the EU budget against the risk of payment defaults. For the latest 2018 annual report on the Fund and its management (COM(2019) 363 final) and its Staff Working Document (SWD(2019) 314 final) approved on 5.8.2019, they are available on http://eur-lex.europa.eu/homepage.html.

[14] For a comprehensive report on the functioning of the Fund and the provisioning target rate, see COM(2014) 214 final of 8.4.2014 and its Staff Working Document (2014) 129 final.

The EU Guarantee[15] covers financing and investment operations signed by the EIB under the main part of the Infrastructure and Innovation Window ("IIW"), and by the EIF under the SME Window ("SMEW") and the SME / MidCap fund investment sub-window of IIW. Part of the overall EFSI operations is covered by the EU Guarantee while a part is carried out at the own risk of the EIB Group[16].

The EIB and the EIF are responsible for assessing and monitoring the risk of the individual operations and report back to the Commission and the European Court of Auditors.

Guarantee Fund of the European Fund for Strategic Investments (EFSI GF)[17]

According to Article 12 of the EFSI Regulation, the EFSI GF shall constitute a liquidity cushion from which the EIB shall be paid in the event of a call on the EU Guarantee. In accordance with the EFSI Agreement between the EU and the EIB, calls are paid by the EFSI GF if their amount is in excess of the funds at the disposal of the EIB on the EFSI Account. The EFSI Account, managed by the EIB, has been established for the purposes of collecting the EU revenues and recovered amounts resulting from EFSI operations under the EU Guarantee and, to the extent of the available balance, for the payment of calls under the EU Guarantee.

The Guarantee Fund has to be maintained at a certain percentage[18] (the Target Amount) of the total amount of the obligations under the EU Guarantee, currently 35%. Thus, the liquidity cushion is intended to provide an appropriate safety margin avoiding exposing the Union budget to sudden guarantee calls, which could entail spending cuts or budget amendments. Therefore, it contributes to the predictability of the budgetary framework.

The EFSI GF is provisioned progressively taking into account the increase in exposure borne by the EU Guarantee.

According to Article 12(4) of the EFSI Regulation, the resources of the EFSI GF are directly managed by the Commission and invested in accordance with the principle of sound financial management following appropriate prudential rules.

The EIB and the EIF are responsible for assessing and monitoring the risk of the individual operations backed by the EU Guarantee. On the basis of this reporting and of coherent and prudent assumptions on future activity, the Commission ensures the adequacy of the target amount and the level of the EFSI GF under review. In line with Article 16(3) of the EFSI Regulation, the EIB and the EIF reported back to the Commission and the European Court of Auditors in March 2019.

Pursuant to Article 16(2) of the EFSI Regulation, the annual report of the EIB to the European Parliament and Council shall contain specific information on the aggregate risk associated

15 The size of the EU Guarantee has been increased from EUR 16 billion to EUR 26 billion by the EFSI 2.0 Amendment.
16 The size of EIB Group Guarantee has been increased from EUR 5 billion to EUR 7.5 billion by the EFSI 2.0 Amendment.
17 For more information on the management of the EFSI Guarantee Fund, see COM(2019) 244 final of 28.05.2019.
18 The Target Amount was originally set by Article 12(5) of the EFSI Regulation at 50% of the total EU guarantee obligations. As of the entry into force of the EFSI 2.0 Regulation, the Target Amount is set at 35% of the total EU guarantee obligations.

with the financing and investment operations carried out under the EFSI as well as on the guarantee calls.

2.5 Crisis management mechanisms which are not covered by the EU budget

As part of the response to the crisis, several other mechanisms have been established which, however, do ***not*** imply any risk to the EU budget and they are only mentioned below for the sake of completeness:

- *the Greek Loan Facility (GLF)*[19] which is financed via bilateral loans from other euro area Member States to Greece, centrally administered by the Commission.

- *European Financial Stability Facility (EFSF)*[20]: The EFSF was created by the euro area Member States as a temporary rescue mechanism in June 2010 to provide financial assistance to euro area Member States within the framework of a macroeconomic adjustment programme. The Treaty establishing a permanent rescue mechanism, the European Stability Mechanism (ESM), entered into force on 27 September 2012. Since 1 July 2013, the EFSF continues with its ongoing programmes to Greece (together with the IMF and some Member States) as well as to Ireland and Portugal (together with the IMF, some Member States and EU/EFSM)[21] but is no longer engaged in new financing programmes or loan facility agreements.

- *European Stability Mechanism (ESM)*[22]: The ESM is an important component of the comprehensive EU strategy designed to safeguard financial stability within the euro area by providing financial assistance to euro area Member States experiencing or threatened by financing difficulties. It is an intergovernmental organization under public international law, based in Luxembourg, with an effective lending capacity of EUR 500 billion.

3. EVOLUTIONS OF GUARANTEED OPERATIONS

This section sets out the evolution of the guaranteed operations; firstly of those managed directly by the Commission and secondly those managed by the EIB.

Table 1: Total outstanding amounts covered by the EU budget at 31 December 2018 (in EUR million)

	Outstanding Capital	Accrued Interest	Total	%
Member States*				
Euratom	152.9	0.5	153.4	0.2%
BOP	1,700.0	33.9	1,733.9	2.1%
EIB	1,141.0	9.0	1,150.0	1.4%
EFSM	46,800.0	600.0	47,400.0	57.5%

[19] About the GLF: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm.
[20] About the EFSF: http://www.efsf.europa.eu.
[21] The loans granted under the EU/EFSM are guaranteed by the EU budget.
[22] About the ESM: http://esm.europa.eu.

Sub-total Member States**	49,793.9	643.3	50,437.2	61.2%
Third Countries***				
MFA	4,360.7	26.8	4,387.6	5.3%
Euratom	100.0	0.5	100.5	0.1%
EIB*****	27,395.2	147.6	27,542.8	33.4%
Sub-total third countries	31,855.9	174.9	32,030.9	38.8%
Total	81,649.9	818.2	82,468.1	100%

* This risk is directly covered by the EU budget. This also includes Euratom and EIB loans granted to Member State countries prior to their accession to the EU.

** This figures does not include EFSI operations, where EUR 15.8 billion have been disbursed at the reporting date.

*** The risk covered by the Fund is limited to EUR 18 billion due to the limitations of the guarantees given to the EIB under each one of the external lending mandates (ELM) (see section 2.1.3 - Guarantees given to the EIB of the associated Staff Working Document).

**** Loans subrogated to the EU following Syria and Enfidha (Tunisia) defaults on EIB loans are included (amount: EUR 502.02 million including outstanding capital, accrued interest and penalties). These loans have been fully impaired in the EU Financial Statements of 2015, 2016, 2017 and 2018.

Tables A1, A2a, A2b and A3 of the SWD provide more detailed information on these outstanding amounts, in particular in terms of ceiling, disbursed amounts or guarantee rates.

3.1 Operations managed directly by the Commission

Financial support for third countries and Member States in the form of bilateral loans financed from the capital markets with the guarantee of the EU budget is provided by the Commission under various legal acts of the Council or of the Council and the European Parliament, depending on the objectives pursued. The consistency of financial support to third countries with the overall objectives of the EU external action policy is ensured by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy, assisted by the European External Action Service (EEAS).

Therefore, in order to finance the lending activities decided by the Council, the Commission is empowered to borrow funds on the capital markets on behalf of both the European Union and Euratom. Borrowing and lending is conducted as back to back operations, which ensures that the EU budget does not take any interest rate or foreign exchange risk. Outstanding borrowings are matched by outstanding loans.

Table 1b Operations of the EU in 2018 (in EUR million)

Instrument	Beneficiary (instalment tranche)	Disbursement date	Maturity	Amount	Totals per program
EFSM	Ireland - 2nd lengthening	06-02-2018	04-04-2025	2 400	4 500
		06-03-2018	04-04-2033	1 000	
	Ireland - 3rd lengthening	29-06-2018	04-04-2033	500	
	Portugal - 2nd lengthening	29-06-2018	04-04-2033	600	
Euratom	Energoatom (Ukraine) - 2nd instalment	06-07-2018	06-07-2028	50	50
MFA	Georgia MFA II - 1st instalment	11-12-2018	04-04-2033	15	515
	Ukraine MFA IV - 1st instalment	11-12-2018	04-04-2033	500	
				Total	**5 065**

Table 2: New Borrowing-and-lending operations (guaranteed by the Union budget) planned for 2019 and 2020 (in EUR million)

Instrument	2019	2020
A. Union and Euratom borrowing-and-lending operations with a Union budget guarantee		
1. Union macro-financial assistance for third countries (MFA)s		
Operations decided or scheduled:		
Georgia II	20	
Jordan II	100	
Moldova	20	40
Tunisia II	150	150
Ukraine IV	500	
Subtotal MFA	**790**	**190**
2. Euratom loans	**100**	**100**
3. Balance of payments	**0**	**0**
4. European Financial Stabilisation Mechanism (EFSM)	0	0
Subtotal A	**890**	**290**
B. European Investment Bank loans with a Union budget guarantee		
1. Pre-accession countries	1 200	1 490
2. Neighbourhood and partnership countries	2 523	2 749
3. Asia and Latin America	559	623
4. Republic of South Africa	78	79
Subtotal B	**4 359**	**4 940**
Grand total	**5 249**	**5 230**

3.1.1 European Financial Stabilisation Mechanism (EFSM)

In its conclusions of 9/10 May 2010, the ECOFIN Council foresaw a volume of the mechanism of EUR 60 billion[23]. In addition, euro-area Member States stood ready to complement such resources if necessary. Article 2(2) of Council Regulation No 407/2010[24]

[23] Cf. Press release on extraordinary Ecofin Council meeting 9/10 May 2010 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/114324.pdf).

[24] Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism (OJ L 118, 12.5.2010, p.1).

limits the outstanding amount of loans or credit lines to be granted to Member States to the margin available under the own resources ceiling for payment appropriations.

Following the Council decisions to grant Union financial assistance to Ireland[25] (up to EUR 22.5 billion) and Portugal[26] (up to EUR 26 billion), disbursements reached EUR 22.5 billion to Ireland and EUR 24.3 billion to Portugal (the remaining EUR 1.7 billion were not requested by the Portuguese government). Accordingly, the EFSM has a remaining capacity of EUR 13.2 billion to provide further assistance, if required.

In April 2013 the Eurogroup/ECOFIN decided to increase the maximum weighted average maturity of EFSM loans from 12.5 to 19.5 years, thus offering an option to the beneficiary countries to request a lengthening of loan maturities up to 2026 (tranche by tranche).

<u>Developments during 2018</u>

<u>Ireland</u>

A request to lengthen the EFSM loan of EUR 3.4 billion - disbursed to Ireland in March 2011 and due on 4 April 2018 - was received from Ireland on 27 November 2017. The loan was refinanced during the first quarter of 2018 in two transactions with maturities in April 2025 (EUR 2.4 billion) and April 2033 (EUR 1 billion).

Furthermore, an additional request to lengthen the EFSM loan of EUR 500 million disbursed to Ireland in October 2011 and due on 4 October 2018 was received from Ireland in the second quarter of 2018. The loan was refinanced in June 2018 by increasing the existing bond with maturity April 2033 (EUR 500 million).

Following the maturity extensions by 7 years (EUR 2.4 billion) and by 15 years (EUR 1.5 billion) in Q1/2018 and Q2/2018, the weighted average maturity of the EFSM loans to Ireland is now 17.1 years.

<u>Portugal</u>

A request to lengthen the EFSM loan of EUR 600 million disbursed to Portugal in October 2011 and due on 4 October 2018 was received from Portugal in the second quarter of 2018. The loan was refinanced in June 2018 by increasing the existing bond with maturity April 2033 (EUR 600 million).

Following the maturity extension by 15 years (EUR 600 million) in Q2/2018, the weighted average maturity of the EFSM loans to Portugal is now 15.3 years.

3.1.2 Balance of Payments facility (BOP)

The EU medium-term financial assistance under the BOP facility was re-activated at the end of 2008 to support Hungary and subsequently Latvia and Romania to restore market confidence for a total commitment of EUR 14.6 billion, of which EUR 13.4 billion were disbursed.

[25] Council Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland (OJ L 30, 4.2.2011, p. 348).

[26] Council Implementing Decision 2011/344/EU of 30 May 2011 on granting Union financial assistance to Portugal (OJ L 159, 17.6.2011, p. 88); see also corrigendum (OJ L 178, 10.7.2012, p.15).

Developments during 2018

Romania repaid two loan tranches of EUR 1.2 billion in April 2018 and EUR 150 million in October 2018. The outstanding amount of BOP loans has thus decreased from EUR 3.05 billion to EUR 1.7 billion in 2018.

At 31 December 2018, the BOP facility had a remaining capacity of EUR 48.3 billion out of an overall ceiling of EUR 50 billion to provide further assistance if required.

3.1.3 Macro-Financial Assistance loans (MFA)

As a general rule, MFA decisions are taken by the European Parliament and the Council (Article 212 of the TFEU). However, the Council may adopt the decision on a proposal from the Commission when the situation in a third country requires urgent financial assistance (Article 213 of the TFEU). That procedure was used in the second MFA package for Ukraine in 2014.

Developments during 2018

Georgia

On 18 April 2018 the European Parliament and Council decided to provide further MFA of up to EUR 45 million to Georgia (MFA II), consisting of a EUR 10 million grant element and a loan of EUR 35 million[27].

The first loan tranche of EUR 15 million (out of the EUR 35 million decision) of Georgia's second programme (MFA II) was disbursed i

n December 2018.

Ukraine

On 4 July 2018 the European Parliament and Council decided to provide further MFA of up to EUR 1 billion to Ukraine (MFA IV), consisting of two tranches of EUR 500 million each with a view to supporting Ukraine's economic stabilisation and substantive reform agenda[28].

The first tranche of EUR 500 million of Ukraine's fourth programme (MFA IV) was disbursed in December 2018.

Republic of Moldova

On 13 September 2017, the European Parliament and the Council decided to provide further macro-financial assistance to the Republic of Moldova of EUR 100 million (up to EUR 60 million provided in the form of loans and up to EUR 40 million in the form of grants) [29].

[27] Decision (EU) 2018/598 of the European Parliament and of the Council of 18 April 2018 on providing macro-financial assistance to Georgia (OJ L 103, 23.04.2018, p.8).

[28] Decision (EU) 2018/947 of the European Parliament and of the Council of 4 July 2018 on providing macro-financial assistance to Ukraine (OJ L 171, 6.7.2018, p.11).

[29] Decision (EU) 2017/1565 of the European Parliament and of the Council of 13 September 2017 on providing macro-financial assistance to the Republic of Moldova (OJ L 242, 20.09.2017, p.14).

This operation is currently suspended due to non-compliance with political pre-conditions.

Additional information

Regarding repayments, EUR 55.73 million were repaid by the beneficiary countries: Albania (EUR 1.8 million), Bosnia and Herzegovina (EUR 4 million), North Macedonia (EUR 5.6 million), Montenegro (EUR 1.10 million) and Serbia (EUR 43.23 million).

The outstanding amount of MFA loans has increased from EUR 3.9 billion to EUR 4.4 billion between 31 December 2017 and 31 December 2018. Loans to Ukraine represent 76% of the total MFA exposure.

3.1.4 Euratom loans

The Euratom lending to Member States or in certain eligible non-member countries (currently Russian Federation, Armenia, Ukraine) has a ceiling of EUR 4 billion of which around 92% has already been disbursed. EUR 326 million remain under the EUR 4 billion Decision.

Ukraine

A loan of EUR 300 million to Ukraine dedicated to the safety upgrade of existing nuclear facilities was granted by COM Decision of 24/06/2013[30]. The loan is provided in close cooperation with the EBRD, which provides another EUR 300 million loan in parallel.

These loans benefit from State guarantees which cover 100% of the amounts outstanding at year end. The first Euratom tranche of EUR 50 million was disbursed in May 2017 and the second Euratom tranche of EUR 50 million was disbursed in June 2018.

Bulgaria and Romania

A loan of EUR 212.5 million was granted to Bulgaria in the form of a multicurrency facility for the modernization of the nuclear power plant of Kozloduy (Units 5 and 6). The loan agreement signed between the European Atomic Energy Community and AEZ “Kozloduy” EAD was signed on 29 May 2000. At 31 December 2018, the outstanding amount was EUR 33.8 million.

A loan of EUR 223.5 million was granted to Romania in the form of a multicurrency facility for the completion of Unit 2 of the nuclear power plant Cernavoda. The loan agreement signed between the European Atomic Energy Community and Societatea Nationala Nuclearelectrica S.A. was signed on 11 June 2004. At 31 December 2018, the outstanding amount was EUR 119.1 million.

Since 1 January 2007, when Bulgaria and Romania became Member States , the outstanding risk of these operations have been directly covered by the EU Budget and no longer by the Guarantee Fund for External Actions.

3.2 Evolution of the EIB external financing operations

Developments during 2018

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[30] C(2013) 3496.

Under the EIB ELM mandate covering the period 2014-2020, a total amount of EUR 17.64 billion had been signed at 31 December 2018, of which only EUR 5.77 billion was disbursed at that date, leaving the outstanding capital at EUR 5.41 billion (see Table A3 of the SWD). For more information on the countries covered by the EIB mandates, see Tables A1, A3 and A4 of the SWD.

For previous EIB external lending mandates, see Table A3 of the SWD.

Defaults on interests payments and loan repayments from the Syrian Government continued in 2018. The EIB has called on the Guarantee Fund to cover those defaults (see paragraph 5.2 below).

Outstanding amounts at 31 December 2018 for the various facilities referred to in this section are presented in Table 1.

4. RISKS COVERED BY THE EU BUDGET

4.1 Definition of risk

The risk borne by the EU budget derives from the outstanding amount of capital and interest in respect of guaranteed operations.

For the purpose of this report, two methods are used for evaluating the risks borne by the EU budget (either directly or indirectly via the Fund):

– "The total risk covered" is based on the sum of the total amount of capital outstanding for the operations concerned on a given date including accrued interest[31].

– The budgetary approach defined as "the annual risk borne by the EU budget" is based on the calculation of the maximum amount of annual payments due which the EU would have to pay out in a financial year assuming that all payments of the guaranteed loans are in default[32].

4.2 Total risk composition

Until 2010 the maximum risk in terms of total outstanding amounts covered was mainly linked to loans granted to third countries. Since 2011, the financial crisis has heavily affected the public finances of the Member States leading to an increase in the lending activity of the EU to support sovereign financing needs in Member States.

As a consequence the composition of risk has changed. At 31 December 2018, 61.2% of the total outstanding amount[33] concerns borrowing operations linked to loans to Member States which are directly covered by the EU budget (compared to 45% at 31.12.2010).

[31] See Table 1 of the Report.

[32] For the purpose of that calculation, it is assumed that defaulting loans are not accelerated, i.e. only payments due are taken into account (see Tables 2 and 3 of the report and Table A4 of the SWD).

[33] See Table 1.

4.3 Annual risk covered by the EU budget

With reference to outstanding loans at 31 December 2018 (see Table 1 above) the maximum amount which the EU would have to pay out during the year 2019 (directly and via the Fund) - *assuming* that *all* guaranteed loans would be in default - is EUR 6 337 million. That amount represents the capital and interest payments from guaranteed loans falling due during 2019, assuming that defaulting loans are not accelerated (for details see Table A4 in SWD).

4.3.1 Member State exposure

In 2019, the EU will bear a maximum annual risk related to operations with Member States (MS) of EUR 2 953.1 million (46.6% of the total annual risk). That risk concerns:

(a) EIB lending and/or Euratom loans granted before Member States' accession to the EU;

(b) the loans granted under the BOP facility, and

(c) the loans granted under the EFSM scheme.

Table 2: Ranking of the Member States according to the annual risk borne by the EU budget in 2019 (EUR million)

Ranking	**Country**	**Loans**	**Max annual risk**	**Weight of the country vis-à-vis annual risk of MS**	**Weight of the country vis-à-vis total annual risk 2019 (MS and non-MS)**
1	Romania	a+b)	1,188.58	40.2%	18.8%
2	Portugal	c)	584.84	19.8%	9.2%
3	Latvia	a+b)	524.04	17.7%	8.3%
4	Ireland	c)	518.98	17.6%	8.2%
5	Bulgaria	a)	54.85	1.9%	0.9%
6	Croatia	a)	34.11	1.2%	0.5%
7	Poland	a)	18.90	0.6%	0.3%
8	Slovakia	a)	13.40	0.5%	0.2%
9	Czech Republic	a)	12.62	0.4%	0.2%
10	Lithuania	a)	2.74	0.1%	0.0%
Total			2,953.1	100.0%	46.6%

4.3.2 Third country exposure

In 2019, the Fund will bear a maximum annual risk related to the exposure to third countries of EUR 3 383.8 million (53.4% of the total annual risk). The risk linked to third countries concerns EIB lending, MFA and Euratom loans (details are included in Table A2b of the SWD). The Fund covers guaranteed loans to third countries with maturities extending up to 2042.

The top ten countries (out of 46 non-MS) are ranked below according to the repayments due in 2019. They account for EUR 2 864.50 million or 84.7% of the annual risk related to third countries borne by the Fund for 2019. The economic situation of those countries is analysed and commented in point 3 of the SWD. Creditworthiness, as assessed by the rating agencies, is also indicated in each country table.

Table 3: Ranking of the **10 third countries** with the highest exposure according to the annual risk borne by the EU budget in 2019 (EUR million)

Ranking	Country	Max annual risk	Weight of the country vis-à-vis annual risk of third countries	Weight of the country vis-à-vis total annual risk 2019 (MS and non-MS)
1	Turkey	977.50	28.9%	15.4%
2	Egypt	739.28	21.8%	11.7%
3	Tunisia	279.98	8.3%	4.4%
4	Morocco	260.06	7.7%	4.1%
5	Serbia	187.00	5.5%	3.0%
6	Ukraine	161.05	4.8%	2.5%
7	Bosnia and Herzegovina	73.41	2.2%	1.2%
8	Lebanon	64.53	1.9%	1.0%
9	South Africa	62.76	1.9%	1.0%
10	Panama	58.94	1.7%	0.9%
Total (top 10)		2,864.50	84.7%	45.2%

5. ACTIVATION AND PAYMENT OF GUARANTEES

5.1 Debt service not covered by the Guarantee Fund for External Action (Euratom loans to Member States, EFSM and BoP)

Article 323 TFEU states that "the financial means are made available to allow the Union to fulfil its legal obligations in respect of third parties". Accordingly, the EU legislative framework and the procedures in place ensure that Member States make mandatorily available to the EU budget the financial means necessary for the Union to always fulfil its legal obligations.

Thus the EU has in place multiple layers of very robust safety mechanisms to ensure that it will always reimburse its own lenders timely and in full. Each one of the main safety mechanism would per se be enough to ensure reimbursements are made.

5.1.1 *Payments from cash resources*

The EU budget provisionally covers the debt service at due dates in case a debtor fails to repay its loan to the EU on time. The Commission draws on its cash resources in order to avoid delays and any resulting costs in servicing its borrowing operations[34].

Being mindful of most expenditures taking place during the first quarter of each year, debt redemption is structured for the months thereafter as well as for the beginning of each month when cash balances are highest.

5.1.2 *Payments from the EU budget*

In the event of default by a Member States[35] and if the EU's own resources are insufficient, the Commission can use available EU budget resources and prioritise debt repayment over other non-obligatory expenditures. According to Article 14(4) of Council Regulation No 609/2014, if this proves to be insufficient, EU legislation obliges Member States to provide additional contributions necessary to repay the debt and to balance the budget, up to a ceiling of 1.20% of EU GNI. If needed, EU legislation allows Member States to contribute independently of their share to the EU budget.

As no default from Member States occurred during the year 2018, no appropriation was requested.

5.2 Calls on the Guarantee Fund for External Actions and recoveries (ELM, MFA and Euratom loans to Third countries)

In the event of late payment by the beneficiary of a loan to third countries granted or guaranteed by the EU, the Guarantee Fund is called on to cover the default within three months of the request.

For ELM loans, the amounts called by the EIB are withdrawn from the Guarantee Fund account after authorization by the Commission services. When the EU makes a payment under the EU Guarantee, it is subrogated into the rights and remedies of the EIB [36]. For Euratom and MFA loans, if the payment delay reaches three months after the due date, the Commission draws on the Fund to cover the default[37] and to replenish its treasury.

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34 See Article 14 of Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (OJ L 168, 7.6.2014, p. 39).

35 See Article 14(3) of Regulation (EU, Euratom) No 609/2014.

36 See Article 8.7 of 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 investment projects outside the Union (OJ L 135, 8.5.2014, p. 1), amended by Decision (EU) 2018/412 of the European Parliament and the Council of 14 of 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 (OJ L 76, 19.3.2018, p. 30).

37 Except for Bulgaria and Romania which were granted Euratom loans before joining the Union. The loans (and loans guarantees) to accession countries were covered by the Fund until the date of accession. From that date, those that remained outstanding ceased to be external actions of the Union and are therefore covered directly by the EU budget.

In the context of the ELM, recovery proceedings are undertaken by the EIB on behalf of the EU in respect of the subrogated sums[38].

EIB loans to projects in Syria

Starting from December 2011, the EIB has experienced defaults on certain interest payments and loan repayments from the Syrian Government. Since official payment requests have remained unsuccessful, the EIB started to call on the Guarantee Fund in May 2012. The evolution of the calls corresponding to defaulting loans in Syria is presented in Table 4a.

Table 4a: Calls on the Guarantee Fund due to defaulting loans in Syria (in EUR million)

Year (Withdrawal from GF account on)	Number of calls paid	Amount of due instalments	Penalties and accrued interests[39]	Amount recovered	Total
2012	2	24.0	0.0	2.1	21.8
2013	8	59.3	1.4	0.0	60.7
2014	8	58.7	1.5	0.0	60.2
2015	8	58.7	1.5	0.0	60.2
2016	12	103.8	2.4	0.0	106.2
2017	13	56.1	0.2	0.0	56.3
2018	12	55.7	0.1	0.0	55.7
Total	63	416.17	7.03	2.1	421.1

At 31 December 2018, the total capital outstanding of guaranteed loans related to Syria amounted to EUR 555 million of principal[40], with the final loan maturity in 2030.

TAV Tunisie S.A. (Enfidha airport)

In 2016 the EIB called the EU guarantee under the external lending mandate in relation to a loan to TAV Tunisie S.A. (Enfidha airport).

On 15 January 2018, EUR 0.14 million recovered from Enfidha Airport were credited to the Guarantee Fund for External Actions. This amount had already been recognised as an asset (receivable) in the balance sheet of 31 December 2017.

[38] For further information on recovery proceedings, see also the Recovery Agreement signed on 3 October 2018 between the European Union and The European Investment Bank governing modalities and procedures for recovery of payments made by the EU under the guarantees granted by it to the EIB against losses under financing operations supporting investment projects outside the EU.

[39] Penalties and accrued interests are claimed by the EIB only with the second payment request of each individual loan and run from the default date until the payment date by the Guarantee Fund.

[40] This includes the amount of EUR 375.39 million (principal) already called by the EIB until 31.12.2018.

The calls on the Fund corresponding to the defaulting loan to TAV Tunisie S.A. (Enfidha airport) are presented in Table 4b.

Table 4b: Call on the Guarantee Fund relating to TAV Tunisie S.A. (Enfidha airport) (in EUR million)

Year of withdrawal	Number of calls paid	Amount of due instalments	Penalties and accrued interest[32]	Amount recovered	Total
2016	1	4.63	0.03	0.00	4.65
2017	3	30.16	0.01	0.00	30.17
2018	0	0.0	0.0	0.14	-0.14
Total	4	34.78	0.04	0.14	34.68

Developments subsequent to 31 December 2018 (until 30 June 2019)

In February and March 2019, EUR 10.6 million in total were paid in two calls for defaulted payments of Syria (EUR 3.2 million and EUR 7.4 million including penalties applied by EIB).

5.3 Evolution of the Fund

In accordance with the Regulation establishing the Guarantee Fund for External Actions ("the Guarantee Fund Regulation")[41], the appropriate level (target amount) is set at 9% of the total outstanding capital liabilities arising from each operation, plus accrued interest. A provisioning mechanism is in place to ensure the target amount is met.

On the basis of the provisioning mechanism, the EU budget paid EUR 137.8 million to the Fund in February 2018, while in February 2019 the respective payment amounted to EUR 103.2 million.

At 31 December 2018, the net assets[42] of the Fund amounted to EUR 2 608.84 million. Therefore, as the net assets of the Fund were lower than the target amount[43] (EUR 2,848.99 million), the Guarantee Fund will be provisioned by EUR 240.15 million in 2020.

A review to assess the main parameters of the Fund, in particular the target amount, should be undertaken at the time of the mid-term review of the EIB external lending mandate. Therefore, an evaluation of the Guarantee Fund was carried out by an external contractor taking into account the risk profile of the Fund and its effectiveness in the light of the evolution of the external financing covered by the Fund and the related risks. The report was

41 Council Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for external actions (OJ L 145, 10.6.2009, p. 10) as amended by Regulation (EU) 2018/409 (OJ L 76, 19.3.2018, p. 1).

42 Total assets of the Fund minus accrued payables (EIB fees and audit fees).

43 9% of EUR 31 655.46 million. The target amount is calculated applying a percentage of 9% to the total outstanding capital liabilities arising from each operation, plus accrued interest (MFA, Euratom and EIB loans to third countries) and less the sugrogated loans at the end of year “n–1”.

delivered in August 2016 and the main conclusion was that a 9% Target Amount was still deemed optimal for the current risk level of the loan portfolio, even under a scenario of further rating downgrades of the main obligors. Therefore, the 9% Target Amount was kept unchanged.

6. THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS (EFSI) [44]

The EFSI Guarantee Fund is provisioned progressively taking into account the increase in exposure borne by the EU Guarantee.

According to Article 12(4) of the EFSI Regulation, the resources of the EFSI GF are directly managed by the Commission and invested in accordance with the principle of sound financial management following appropriate prudential rules.

The EIB and the EIF are responsible for assessing and monitoring the risk of the individual operations backed by the EU Guarantee. On the basis of this reporting and of coherent and prudent assumptions on future activity, the Commission ensures the adequacy of the target amount and the level of the EFSI GF under review. In line with Article 16(3) of the EFSI Regulation, the EIB and the EIF reported back to the Commission and the European Court of Auditors in March 2019.

Pursuant to Article 16(2) of the EFSI Regulation, the annual report of the EIB to the European Parliament and Council shall contain specific information on the aggregate risk associated with the financing and investment operations carried out under the EFSI as well as on guarantee calls.

Developments during 2018[45]

As of 31 December 2018, total cumulated signatures under EFSI amounted to EUR 53.6 billion covering 28 Member States, of which EUR 39.1 billion were signed under the Innovation Window (IIW) (407 operations) and EUR 14.5 billion were signed under the SME window (SMEW) (470 operations). Overall, this represents a significant increase compared to 2017, at the end of which total signatures amounted to EUR 37.4 billion.

As of 31 December 2018, the overall outstanding disbursed exposure covered by the EU Guarantee amounted to nearly EUR 15.8 billion, up from EUR 10.1 billion in 2017.

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44 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 (the "EFSI Regulation") OJ L 169, 1.7.2015, p. 1. The EFSI Regulation was amended by Regulation (EU) 2017/2396 of the European Parliament and Council of 13 December 2017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub (the "EFSI 2.0 Amendment"). The EFSI 2.0 Amendment increased, inter alia, the size of the EU Guarantee and adjusted the target rate. The agreement on the management of the EFSI and on the granting of the EU Guarantee (the "EFSI Agreement") was signed by the European Commission and the European Investment Bank (the "EIB") on 22 July 2015 and was amended and restated on 21 July 2016, 21 November 2017, 9 March 2018 and December 2018.

45 Information for this section has been extracted from the Report from the Commission to the European Parliament, the Council and the Court of Auditors on the management of the Guarantee Fund of the European Fund for Strategic Investments in 2018 - COM(2019) 244 final of 28.05.2019.

The exposure of the EU budget to possible future payments under the EU Guarantee in terms of signed operations (disbursed and undisbursed) amounted to EUR 19.8 billion.

The guarantee exposure of the EU in relation to disbursed outstanding EFSI operations by the EIB Group amounted to EUR 15.8 billion, as at 31 December 2018, out of the net available legal commitment[46] of EUR 25.9 billion guaranteed by the EU. The amount of EUR 15.8 billion is recorded as a contingent liability in the notes to the 2018 financial statements of the EU.

Under the Infrastructure and Innovation Window (IIW), the outstanding disbursed exposure covered by the EU Guarantee was EUR 14.8 billion, of which EUR 14.2 billion for debt operations and EUR 600 million for equity-type operations.

In 2018, EFSI operations managed by the EIB under the Infrastructure and Innovation Window (IIW) generated a net revenue of EUR 112.7 million for the EU. Of this amount, a net receivable of the Commission from the EIB as at 31 December 2018 of EUR 38.9 million[47] was recorded in the 2018 EU financial statements.

As of 31 December 2018, under SME window (SMEW), the total outstanding exposure covered by the EU Guarantee was EUR 995 million, of which EUR 880 million for guarantee operations and EUR 115 million for equity operations.

For the EFSI operations under the SME Window (SMEW), the EU incurred costs of EUR 30.3 million in 2018. Out of this, EIF administrative fees of EUR 21.9 million recorded in the 2018 EU financial statements are payable to the EIF on or after 30 June 2019.

The total assets of the EFSI GF[48] stood at EUR 5 452 million as at 31 December 2018. The assets comprised the investment securities portfolio, classified as available-for-sale (EUR 5 000 million), an FX forward sale of USD with positive net present value, classified as financial assets at fair value through surplus and deficit (EUR 2 million), and cash and cash equivalents (EUR 450 million).

Provisioning of the EFSI Guarantee Fund

A total budgetary appropriation of EUR 2 069 million was committed in 2018 relating to the provisioning of the EFSI GF. Of this amount, a budgetary appropriation of EUR 1 905 million was committed in compliance with Commission Decision C(2018)307. Additional commitment appropriations for an amount of EUR 105 million were made available from the budget line "Reserves for Financial Interventions". Finally, an amount of EUR 59 million was committed as assigned revenue.

A total amount of EUR 2 014 million was effectively paid into the EFSI GF during the year. Of this, the bulk came from payment appropriations of the general budget of the EU, while an amount of EUR 59 million was recovered as assigned revenue (EUR 53.4 million from EFSI

[46] According to Article 11 of the EFSI 2.0 Amendment, the EU Guarantee shall not, at any time, exceed EUR 26 billion and shall not exceed EUR 16 billion before 6 July 2018. Calls and uses of the EU Guarantee, and provisions for portfolio guarantee products under SME Window, are deducted from the maximum amount of the EU Guarantee.

[47] Net of outstanding recovery costs of EUR 0.5 million payable to the EIB in 2019 in relation to a defaulted operation.

[48] The audited financial statements of the EFSI Guarantee Fund are disclosed in the staff working document accompanying the EFSI GF report – SWD (2019) 188.

revenues and EUR 5.6 million from Marguerite Fund revenues) and an amount of EUR 154.9 million was transferred as additional payment appropriations at the end of the budgetary year.

Calls and use of the EU guarantee

In accordance with Article 8.1(a) of the EFSI Agreement, the EU Guarantee was called for an amount of EUR 97.1 million related to a defaulted operation under the Infrastructure and Innovation Window. In accordance with the Article 11 of the EFSI Agreement, the EIB recovered initially the amount of EUR 18.6 million, reducing the amount to be paid to EUR 78.5 million. The call was paid from the EFSI Account (EUR 17.7 million) and from the EFSI GF (EUR 60.8 million). Subsequently, the amount of EUR 1.6 million was recovered. In relation to this defaulted operation, an amount of EUR 1.0 million for recovery costs and EUR 0.6 million for recoverable administrative costs were called by the EIB.

In 2018, an amount of EUR 0.6 million was paid to the EIB for funding costs[49] and EUR 10.7 million for value adjustments[50].

For more information on the management of the EFSI Guarantee Fund, see the last version of the report from the Commission to the European Parliament, the Council and the Court of Auditors on the management of the Guarantee Fund of the European fund for strategic investments[51] and the associated Staff Working Document (SWD).

7. EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT (EFSD)

The European Commission proposed on 14 September 2016 an External Investment Plan (EIP) to encourage investment in the EU's partner countries in Africa and the EU Neighbourhood region, to strengthen partnerships and contribute to achieving Sustainable Development Goals, helping to address some root causes of migration.

Part of the External Investment Plan (EIP) is the new European Fund for Sustainable Development (EFSD) as an integrated financing mechanism to support investments by public financial institutions and the private sector. By being open to a range of implementing partners, the EFSD is able to leverage much more public and private investment in target countries than would otherwise be possible. It comprises:

- a budgetary guarantee and
- blending instruments.

The EFSD Legislation entered into force on 26 September 2017. [52]

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49 See Article 8.1(d) of the EFSI Agreement. This amount does not include the EUR 1.6 million of costs related to the call mentioned above.

50 See Article 8.1(b) of the EFSI Agreement.

51 Last version - COM(2019) 244 final of 28.5.2019.

52 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 (OJ L 249, 27.9.2017, p. 1).

7.1 About the EFSD Guarantee

The EFSD Guarantee will be used to reduce the risks for investment in sustainable development in partner countries, thus helping mobilise investment, especially from private sources.

The guarantee is designed to mobilise private investment worth EUR 1.54 billion. This amount has been allocated to 28 proposed investment programmes, expected to leverage up to EUR 17.5 billion of sustainable investment in partner countries (much of it from private sources). The guarantee can:

- attract financing for some of the initial capital ('equity' or 'risk capital') a project needs to get off the ground;
- serve as a pledge (guarantee) to pay back part of a loan if a borrower incurs losses and defaults on it.

Investment Programmes

By April 2018, a number of partner financial institutions (FIs) had proposed more than 40 investment programmes in excess of EUR 3.5 billion for cover by the EFSD Guarantee under the five priority areas for investment (investment windows), i.e. a) Sustainable Energy and Connectivity, b) Micro, small and medium sized enterprises ('MSME') Financing, c) Sustainable Agriculture, Rural Entrepreneurs and Agribusiness, d) Sustainable Cities and e) Digital for Development.

In June and November 2018, based on the FIs' proposals, the EU finally allocated EUR 1.54 billion for 28 guarantees.

NASIRA

The first EFSD Guarantee agreement was signed on 18 December 2018 with the triple A-rated Dutch Development Bank FMO for the NASIRA Risk-Sharing Facility.

FMO expects that NASIRA will create and support up to 800 000 jobs and benefit small and medium-sized enterprises (SMEs), internally displaced people, refugees, returnees, women and young people.

Multiple parallel negotiations with other partner financial institutions (FIs) have been set to commence, and a significant number of them are expected to be concluded before the end of 2019.

7.2 The EFSD Guarantee Fund

The EFSD Guarantee Fund shall constitute a liquidity cushion from which the eligible counterparts shall be paid in the event of a call on the EFSD Guarantee further to the conclusion of Guarantee Agreements with eligible counterparts and in line with the corresponding provisions, in accordance with Chapter III of Regulation (EU) No 2017/1601.

The resources of the EFSD Guarantee Fund are to be directly managed by the Commission and invested in accordance with the principle of sound financial management under appropriate prudential rules.

The EFSD Guarantee Fund is to be endowed by contributions from the budget of the Union and the European Development Fund (EDF) as well as voluntary contributions from Member States and other contributors, and other sources of endowments, in accordance with Article 14 of Regulation (EU) No 2017/1601.

The provisioning rate is stablished at 50 % of the total EFSD Guarantee obligations covered by the general budget of the Union.