

Guarantee Fund for External Actions

In a nutshell

The Guarantee Fund for External Actions (GFEA) backs loans and loan guarantees granted to non-EU countries, or to finance projects in non-EU countries. Its objectives are to help protect the EU budget against the risks associated with such loans. The main objective of the actions backed by the GFEA is to support the increase of growth and jobs, and to improve the business environment in developing countries by strengthening the involvement of the private sector. The GFEA also contributes to the European External Investment Plan, which addresses the root causes of migration, the ongoing refugee crisis and security-related issues.

EU's Multiannual Financial Framework (MFF) heading and policy area

Heading 4 Global Europe
International economic and financial affairs (01 03 06)

2014-2020 financial envelope (in current prices and as a % of total MFF)

Commitments: €1 193.07 million (0.11 %)

2017 budget (in current prices and as a % of total EU budget)

Commitments: €240.54 million (0.15 %)
Payments: €240.54 million (0.18 %)

2018 budget (in current prices and as a % of total EU budget)

Commitments: €137.8 million (0.09 %)
Payments: €137.8 million (0.10 %)

Methods of implementation

Indirect management (European Investment Bank)



In this briefing:

- EU role in the policy area: legal basis
- Objectives of the GFEA
- Funded actions
- Assessment of the GFEA
- Other EU programmes and action in the same field

EU role in the policy area: legal basis

The Guarantee Fund for External Actions (GFEA) backs loans and loan guarantees granted to non-EU countries or granted for the purpose of financing projects in non-EU countries. It was established with Council Regulation (EC, Euratom) [No 2728/94](#) of 31 October 1994. After undergoing several substantial amendments, this regulation was replaced by Council Regulation (EC, Euratom) [No 480/2009](#) of 25 May 2009. The GFEA was subsequently included in the 2014-2020 Multiannual Financial Framework (MFF).

In 2016, the European Commission announced its [European External Investment Plan \(EIP\)](#), which was published in the context of the new [Partnership framework with third countries](#) and the [European agenda on migration](#). The EIP aims to support investment in the EU's partner countries and to promote new forms of private sector participation. The EIP includes a European Fund for Sustainable Development (EFSD), as well as amendments to the external lending mandate (ELM) of the European Investment Bank (EIB) and the GFEA. The amendments are designed to protect both the EU budget and the EIB's strong credit rating from possible additional risk. [Regulation \(EU\) 2018/409](#) of the European Parliament and of the Council of 14 March 2018 contains ancillary provisions for the functioning of the EIP, focusing in particular on the private-sector. Therefore, it is linked to [Decision \(EU\) 2018/412](#) of the European Parliament and of the Council of 14 March 2018 on granting an EU guarantee to the EIB against losses under financing operations supporting investment projects outside the Union.

Objectives of the GFEA

The GFEA aims to help protect the EU budget against the risks associated with loans and guarantees granted to third countries or to help finance projects in third countries. The GFEA resources are used to repay the EU's creditors in the event of a default on a loan granted or guaranteed by the Union or for which the Union has provided a guarantee. The lending and guarantee operations are carried out for the benefit of a third country or for the purpose of financing projects in third countries.

Lending backed by the GFEA is aimed at contributing to an increase in growth and employment, and to an improved business environment in developing countries by way of strengthening the involvement of their private sector. In support of the EU's external policies, the EIB has been undertaking such operations with a partial EU budgetary guarantee for the past 30 years. In its 2016 communication on [Strengthening European investments for jobs and growth](#), the Commission outlined its objectives to tackle the root causes of migration, the ongoing refugee crisis and security-related issues, in particular in the context of a new [European External Investment Plan](#), which includes the GFEA. The EIP is expected to contribute to the active involvement of the private sector, which is necessary for mobilising more resources, building capacity and achieving development goals. The EIP's primary aim is to support partner countries and promoting a model for private-sector participation by creating a favourable investment and business environment.

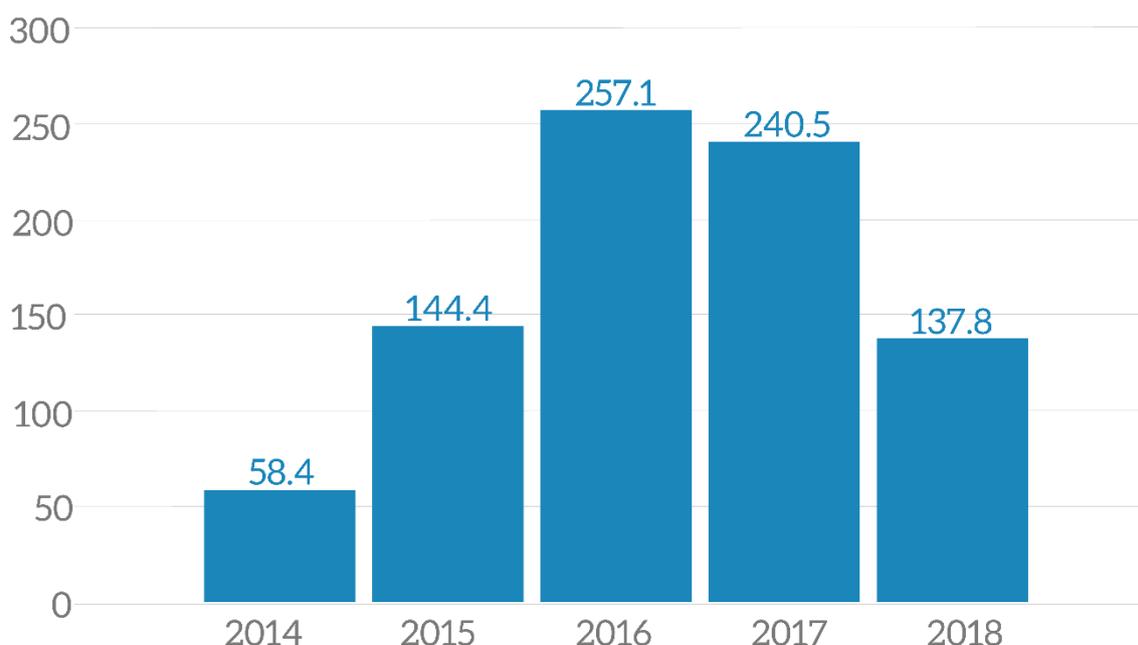
Funded actions

The GFEA protects the EU budget from potential shocks related to defaults on loans that are guaranteed by the EU, and its financial management is entrusted to the EIB. Based on the EU [Guarantee Agreement between the EIB and the EU](#) of 16 April 2014, the EIB's external lending mandate (ELM) has concluded many financing actions in countries with a speculative investment grade. In its 2016 [mid-term evaluation of the EU guarantee for](#)

[the EIB's ELM](#), the Commission observed that many of the countries that are financed through the ELM are characterised by high volatility and uncertainty, which makes it difficult for the EIB to carry out lending at its own risk and justifies the use of the EU Guarantee Fund. For this reason, the Commission guarantees potential losses under loans, thereby allowing the EIB to maintain a high credit rating. In relation to the ELM's general objectives, which are aligned with the UN SDGs, most of the EIB's initiatives outside the EU are focused on local private-sector development, involving in particular help to small and medium-sized enterprises, development of social and economic infrastructure, and climate change mitigation and adaptation.

The [size of the contributions](#) transferred to the GFEA is determined annually, depending on the budget that is adopted. The contributions for 2018 amount to €137.8 million, down by about €102.7 million compared to the 2017 budget. The EU provisioning to adjust the Fund to 9 % of the total outstanding loans under the ELM, based on [Articles 3 and 5 of Regulation No 480/2009](#), needs the approval of the Council and the European Parliament, in order to be recognised as an asset for the Fund. The actual provisioning amount is calculated ex-post and is paid from the budget into the GFEA with a two-year delay. The evolution of the Fund for the 2014-2018 period is shown in Figure 1 below.

Figure 1 – Provisioning amounts from the EU budget / Size of the Guarantee Fund (in € million)



Source: [EU annual budget](#), 2014-2018.

The main purpose of the EU budget guarantee is to act as a liquidity cushion covering default or late payments for projects in non-Member States. Since 18 January 2012 and in line with [Council Regulation \(EU\) No 36/2012](#), however, all disbursements and payments regarding existing loan agreements with Syria and technical assistance to sovereign projects in Syria have been abandoned. While previously the Syrian government had been repaying its loans to the EIB duly and fully, since December 2011, repayment has been disrupted. Once the beneficiaries of a loan to third countries fail to service its loans to the bank, the EIB calls on the GFEA to cover the default within three months of the call. As a consequence, as of December 2017, the EIB had made a total of 51 calls on the GFEA for projects in Syria, with a total paid amount of €365.3 million as presented in the Commission's 2017 report on the Guarantee Fund and its management. That said, the total outstanding capital of guaranteed loans related to Syria amounts to

€555 million, with the last loan maturity scheduled for 2030. The first withdrawals from the Guarantee Fund date back to 2012; a single amount of €2.2 million was recovered from the Syrian government in that same year (see Figure 2). Two additional calls related to Syria for a total amount of €10.6 million were paid by the end of March 2018.

Figure 2 – Timeline of calls on the Guarantee Fund due to defaulting loans in Syria (in € million)

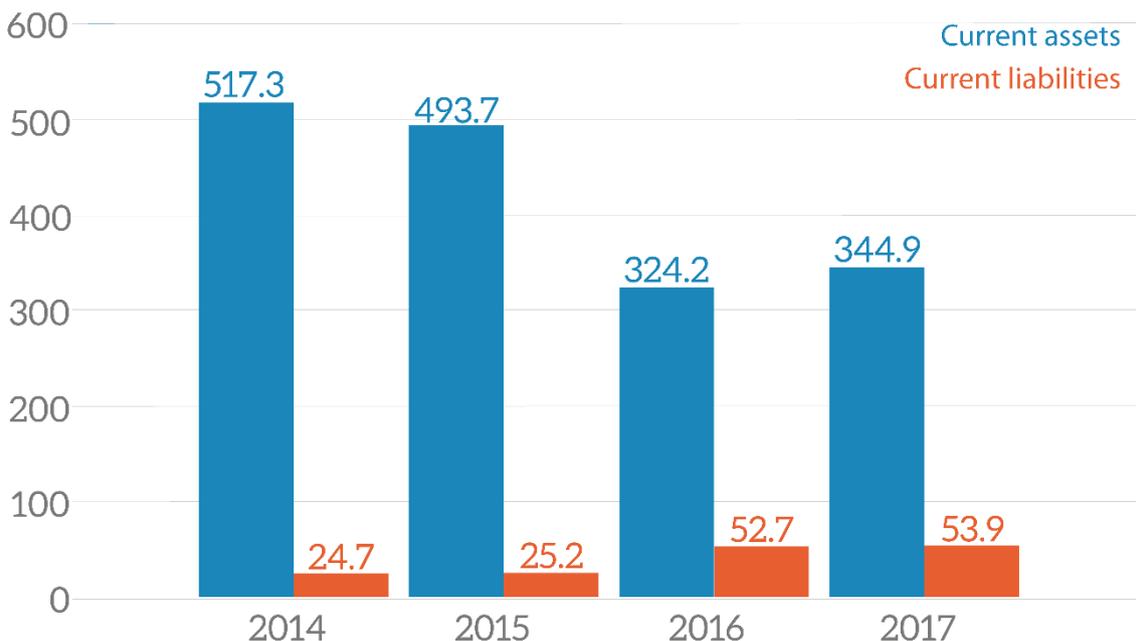
Year	Number of calls paid	Total amount (€ million)	Amount recovered (€ million)
2012	2	21.8	2.2
2013	8	60.7	0.0
2014	8	60.2	0.0
2015	8	60.2	0.0
2016	12	106.2	0.0
2017	13	56.3	0.0
Sum	51	365.3	2.2

Source: [Report from the Commission to the European Parliament and the Council on guarantees covered by the general budget](#), situation at 31 December 2016; [Report from the Commission to the European Parliament and the Council on the Guarantee Fund for External Action and its management in 2017](#), July 2018.

According to the Commission's 2016 [annual report on guarantees covered by the general budget](#), the EIB has also made a call on the guarantee under the ELM for a defaulted loan to Tunisia's Enfidha Airport (TAV Tunisie S.A.). The Commission gave its approval for four calls; consequently, the amount of €33.4 million was paid to the EIB between September 2016 and December 2017. The amount of €0.14 million, recovered from the Tunisian government, was recorded in January 2018.

Another circumstance that has had an impact on the Guarantee Fund is the accession of several countries to the EU. Once [Bulgaria and Romania](#) joined the EU in 2007, the risk associated with them started to be covered by the EU budget rather than the Guarantee Fund. Accordingly, €260.9 million was repaid from the Fund to the EU budget in 2007. In a similar fashion, [Croatia's EU accession](#) in 2013 led to a repayment from the Fund to the EU budget of €30 million, corresponding to an exposure on Croatia of about €337 million (outstanding amounts plus accrued interest).

Despite the above-mentioned transactions to the EIB on defaulted payments, the position of the Fund has enjoyed sound financial health over the years. As shown in Figure 3 below, the Fund's current assets are greater than its current liabilities, indicating that it would be able to cover potential losses under loans and respond to EIB calls at any point in time.

Figure 3 – Current assets and liabilities of the Guarantee Fund (in € million)¹

Source: Report from the Commission to the European Parliament and the Council on the Guarantee Fund and its management (2014-2017).²

The Commission, together with the European External Action Service, has concluded that the economic, social, environmental and political situation in Iran since the adoption of Decision No 466/2014/EU, has improved. Consequently, Iran was moved from the list of potentially eligible countries to the list of eligible countries with a [Commission Delegated Decision of 6 June 2018](#), amending Annex III to Decision No 466/2014/EU of the European Parliament and of the Council. With the update of the EIB's external lending mandate, Iran would be eligible for EIB investment operations if the financing is aligned with the relevant rules and procedures followed by the EIB's governing bodies.

Assessment of the GFEA

Impact assessments and review by the Commission

In May 2013, the Commission published its [working document: impact assessment – EIB external mandate 2014-2020](#), accompanying the proposal for a decision on granting an EU guarantee to the EIB against losses under financing operations supporting external investment projects. The impact assessment outlines certain specific problems: the risk of sub-optimal use of the EU guarantee; the impossibility for the EIB to finance all types of microfinance operations with the EU guarantee; the insufficient level of funding for climate action; and the unclear role of the EIB as a key delivery tool of EU external financial support. The impact assessment concludes that the preference is to amend the existing guarantee and introduce a mechanism to focus the geographical scope, in particular in the Asia and Latin America region, on creditworthy beneficiaries differentiated by beneficiary/type of operations and by region concerned.

The [mid-term review/revision of the multiannual financial framework 2014-2020](#), published by the Commission in September 2016, assessed the implementation of the EU funds and identified possible improvements. In the context of providing financial means for the budget's performance in addressing the EU's priorities and cost-efficient delivery mechanisms, the Commission proposed making legislative changes, under the External Investment Plan, to Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for External Actions and to 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. The Commission staff working document accompanying the mid-term review/revision of the 2014-2020 MFF further elaborates on this topic.

Through [Regulation \(EU\) 2018/409](#) and [Decision \(EU\) 2018/412](#), both adopted on 14 March 2018, the Commission entrusted the financial management of the GFEA to the EIB, and increased the maximum ceiling for EIB financing operations under the EU guarantee by €5.3 billion, thereby reaching a total of €32.3 billion. In so doing, it gave the ELM the financial means to respond to potential upcoming challenges and Union priorities, as well as to fulfil new objectives.

[The Commission staff working document on the mid-term evaluation of the EU guarantee for the EIB ELM](#), published in September 2016, recognised the flexibility of the ELM with regards to the Union's external policy agenda, mentioning its adequate response to geopolitical and economic challenges as in the case of Syria, Ukraine (the Ukrainian crisis), Egypt and Morocco (the 'Arab spring') and Jordan (the refugee crisis). However, the evaluation found that the funds allocated in Asia, southern Africa, central Asia, Russia, eastern Europe and the South Caucasus had reached 78 % of the regional ceiling, meaning further financing for future challenges might be limited.

Assessments by other stakeholders

The issues outlined in the Commission impact assessment have also been highlighted by the CEE Bankwatch Network. In a 2016 [critical reflection](#) on the EIB's external actions, the network disagrees with how the EIB conducts its external investment programmes. Accordingly, it does not support the [Commission proposal](#) of 2016 to further expand the EU guarantee for the EIP. [Plan International](#) recognises similar issues and emphasises that the EIP does not have sufficient focus on the development aspect, but is rather considered an EU foreign policy tool. In a [joint publication](#), civil society organisations including Oxfam, EuroDad, Solidar and ActionAid argue that the EIP should be de-linked from any short-term EU foreign-policy objectives. [CEE Bankwatch Network](#) also points to the need for enhanced EIB transparency regarding GFEA-covered programmes, and for urgently imposing further restrictions on GFEA-covered programmes.

External consultants [GHK Consulting](#) and [Volterra Consulting](#) performed an evaluation of the GFEA for 2009-2010, as mentioned in a [report from the Commission to the Parliament and Council](#). They found the GFEA both effective and efficient in tackling the financial risks related to EIB external lending operations. Furthermore, they deem the GFEA operating costs acceptable, notably given the protection and stability the Fund brings.

In its [2014 annual report](#), the European Court of Auditors (ECA) revealed that the GFEA's portfolio underperformed its benchmark index by 34 basis points (bps). Nevertheless, the ECA had a positive opinion on the management of the GFEA portfolio, which is in the hands of the EIB, and found that the GFEA's financial management was monitored in compliance with the agreement between the EIB and the Commission. The GFEA's financial results for 2016 were published in the Commission's 2017 [report on the GFEA and its management](#): the total assets had gone up by €162.6 million, the net operating result had decreased by 7.7 % and the portfolio had outperformed its benchmark index by 36.35 bps.

Other EU programmes and action in the same field

The GFEA should be seen as part of the EU's external policy. Instruments and policies related to it are the European Fund for Sustainable Development (EFSD), the Common Foreign and Security Policy (CFSP), the Development Cooperation Instrument (DCI) and the Instrument contributing to Stability and Peace (IcSP).

European Fund for Sustainable Development (EFSD)

The EFSD was established in September 2017 as part of the partnership framework for cooperation with countries with high irregular migration. It contributes to the new External Investment Plan by helping to achieve the Agenda 2030 Sustainable Development Goals of the United Nations. Its aim is to help partner countries to manage migration effectively, to cooperate on readmission of irregular migrants, and to address the root causes of migration.

Common Foreign and Security Policy (CFSP)

With a budget of €2 339 million, the CFSP funds efforts to preserve peace, prevent conflicts, strengthen international security and ensure the visibility and effectiveness of EU foreign policy. The ultimate objective of EU foreign policy is to support civilian missions, the EU Special Representatives and measures aimed at non-proliferation and disarmament.

Development Cooperation Instrument (DCI)

The DCI's financial envelope of €19 662 million is allocated to projects alleviating poverty; fostering sustainable economic, social and environmental development; and supporting democracy, good governance, human rights and international law in recipient countries. Moreover, the instrument is one of the two EU funds for aid to developing countries alongside the European Development Fund, which is outside the EU budget.

Instrument contributing to Stability and Peace (IcSP)

The IcSP finances both the EU foreign and development policy in areas such as crisis response, conflict prevention, peace-building and crisis preparedness, and serves to address global and trans-regional threats. The amount allocated to this instrument for the 2014-2020 period is €2 339 million.

Main references

[Council Regulation \(EC, Euratom\) No 480/2009](#) of 25 May 2009 establishing a Guarantee Fund for external actions.

[Regulation \(EU\) 2018/409](#) of the European Parliament and of the Council of 14 March 2018 amending Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for External Actions.

[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.

[Report from the Commission to the European Parliament and the Council on the Guarantee Fund for External Action and its management in 2017](#), July 2018.

[Report from the Commission to the European Parliament and the Council on guarantees covered by the general budget](#), Situation at 31 December 2016.

[Mid-term review/revision of the multiannual financial framework 2014-2020](#): An EU budget focused on results.

Commission staff working document [Mid-term evaluation of the European Union Guarantee for the EIB External Lending Mandate](#), September 2016.

[European External Investment Plan](#), European Commission, 2017.

Commission staff working document [Impact Assessment – EIB external mandate 2014-2020](#), May 2013.

Endnotes

¹ The figures are detailed in the pre-consolidated financial statements of the Fund, which are part of the EU's consolidated financial statements. They include accounting operations that are not included in the Fund's financial statements prepared by the EIB.

² [Report from the Commission to the European Parliament and the Council on the Guarantee Fund and its management in 2014](#), July 2015.

[Report from the Commission to the European Parliament and the Council on the Guarantee Fund and its management in 2015](#), July 2016.

[Report from the Commission to the European Parliament and the Council on the Guarantee Fund and its management in 2016](#), September 2017.

[Report from the Commission to the European Parliament and the Council on the Guarantee Fund for External Action and its management in 2017](#), July 2018.

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