

Community loans to third countries: provisioning mechanism of the Guarantee Fund for external actions

2005/0025(CNS) - 10/11/2005 - Court of Auditors: opinion, report

PURPOSE: A Court of Auditor's Opinion on the proposed Regulation to amend existing legislation establishing a Guarantee Fund for external actions.

CONTENT: By and large, the Court welcomes the proposed Council Regulation. It does, however, have one observation, relating to the threshold amount in the "smoothing mechanism" of the draft amending Regulation.

The threshold amount is based on Commission estimates, which in turn are based on various scenarios for the Union's external lending. At the same time though the EIB's external lending mandate (based on the Financial Perspective 2007-13) has yet to be adopted. In the absence of reliable data or forecasts, the current rules provide for a higher provisioning rate of the Fund if its resources fall below 75% of the target amount as result of the activation of guarantees following default. This rule would be replaced by the implementation of the "smoothing" mechanism. The new procedure for provisioning the Fund is based on *ex post* calculations so that the provisioning will be made with a time lag.

The Court finds that the Commission should consider setting up a warning mechanism in order to inform the budgetary authorities if the net assets of the fund fall below 75% of the target amount either because of the increase of guarantees and/or because of the activation of guarantees. This would keep the budgetary authorities informed of unfavourable developments at an early date and not just when exceptional measures would be required to replenish the Fund (such as when the resources in the Fund fall below 50% of the target amount).