EUROPEAN COURT OF AUDITORS

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Press Release

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Audit in the field of EU External Actions: EU auditors warn the incoming Commission on the use of blending

"*Blending is the next big thing in EU development policy funding. Operating in a budgetary straitjacket, the incoming Commission will be under huge pressure to stretch the leveraging of EU funds with loans to its limits*" **according to Karel Pinxten, the ECA Member responsible for this report**. "*It is paramount that blending is only used when the Commission can clearly demonstrate its added value. The audit shows that this was not always the case in the past*" **continued Mr Pinxten**.

For nearly half of the projects examined by the auditors there was insufficient evidence to conclude that the grants were justified. For a number of these cases there were indications that the investments would have been made without the EU contribution.

While the European Court of Auditors (ECA) report, published today, delivers a positive verdict on the set-up and general effectiveness of blending regional investment facility grants with financial institution loans, it points out a number of key issues which need to be urgently addressed.

Mr Pinxten referred to the risks which arise when blending is not used with sufficient care and attention - "*Firstly, it may lead to a waste of EU development funds when programmes/projects, that would have been undertaken anyway, are subsidised. The Commission, when using blending instruments, must make sure that it does not become the "sponsor" of financial institutions. Secondly, if not used with great care, blending may lead to a debt bubble in some third world countries with limited revenues to service their debt*".

The Commission has indicated that it wishes to extend the use of blending and this will involve a considerable amount of development aid in future years. As at 31/12/2013, the Commission had already entered into contracts for over €1.6 billion for the regional investment facilities.

The full report is available on www.eca.europa.eu

ECA Press

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Notes to editors

ECA special reports are published throughout the year, presenting the findings of selected audits of specific EU budgetary areas or management topics.

This special report (No 16/2014) entitled "**The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies**" examines the set-up and management of the investment facilities and whether the use of blending yielded the intended benefits.

Since 2007 the Commission has created eight regional investment facilities that cover the Commission's entire sphere of external cooperation. These combine grants funded by the European Development Funds and the EU general budget with loans, mainly from European development-finance institutions. In some cases direct contributions are also made by Member States. Blending aims, in particular, to address investment opportunities, usually major infrastructure projects, which could be viable but do not attract sufficient funding from market sources.

The Court's audit found that blending the regional investment facility grants with loans from financial institutions to support EU external policies has been generally effective. It concludes that, while the facilities were well set up, the potential benefits of blending were not fully realised due to Commission management shortcomings.

The report makes the following recommendations:

1. The Commission should ensure that the allocation of EU grants is based on a documented assessment of the added value resulting from the grants in terms of achieving EU development, neighbourhood and enlargement objectives. In doing so, the Commission should:

> (a) ensure that adequate guidelines are adopted and implemented in order to steer the Commission's involvement at all stages of the approval and follow-up process;
> (b) take a more proactive role, in particular at EU delegation level, in identifying and selecting projects;
> (c) ensure that grant applications submitted to executive boards for final approval concern only mature projects and contain complete information. More specifically, the grant applications should detail the need for and added value of the grants and clarify how the amounts have been established;
> (d) shorten the average duration of the approval process by reviewing the systematic need for provisional approvals.

2. The Commission should disburse funding only when the funds are actually needed by the beneficiary.

3. The Commission should improve its monitoring of the EU grant implementation. In doing so, the Commission should:

> (a) implement a results-measurement framework that includes indicators for following up the impact of EU grants;
> (b) provide clear instructions to EU delegations regarding their role in monitoring EU support for blended projects;
> (c) include the EU-Africa Infrastructure Trust Fund in the Results Oriented Monitoring (ROM) process and adapt ROM methodology to the specific characteristics of blending.

4. The Commission should increase its efforts to ensure that appropriate visibility is afforded to EU funding by defining clear visibility requirements for financial institutions and requiring the EU delegations to be involved in visibility actions.