EUROPEAN
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OF AUDITORS

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Press Release

Luxembourg, 7 July 2016

Financial Instruments: costs must be kept reasonable, say EU Auditors

Financial instruments, which provide EU support to recipients through loans, guarantees and equity investments, are sometimes expensive in terms of management costs and fees, according to a new report from the European Court of Auditors. The instruments operate across all Member States and are used increasingly by the EU as they may be a better way of using public money than grants.

The auditors examined whether financial instruments in the areas of regional, social, transport and energy policy were an efficient way to implement the EU budget during the period 2007-2013. They identified a number of significant issues that limited their efficiency:

- management costs and fees were high in relation to the support provided and significantly higher than for private-sector funds;

- a significant number were oversized and by end-2014 they continued to face significant problems in disbursing their capital (although steps have since been taken which may alleviate this problem);

- financial instruments in both shared and central management were unsuccessful in attracting private capital;

- only a limited number succeeded in providing re-usable financial support.

Mrs Iliana Ivanova, the Member of the European Court of Auditors responsible for the report, said, "*Under certain conditions, financial instruments represent a better way to spend public money. But it is essential that their associated fees and costs are kept at a reasonable level going forward to 2020.*"

Improvements were made for the 2014-2020 programme period, but certain issues remain, say the auditors. Their main **recommendations** (with target time-frames) are that the Commission should:

- ensure that Member States report comprehensive information on management costs and fees already incurred (by end-2017) and also change the regulations during 2016 to strengthen the element of incentives in fees for fund managers over the period to 2020;

The purpose of this press release is to convey the main messages of the special report adopted by the European Court of Auditors.
The full report is on www.eca.europa.eu

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- distinguish clearly between the extra funding raised by public and private contributions and clearly define how the amounts mobilised by the EU and national public contributions are calculated, possibly following OECD guidelines (at mid-term review);

- ensure that Member States provide complete and reliable data on private contributions to capital endowments (by end-2107);

- take appropriate measures to ensure that Member States re-use funds for the intended purposes during the required eight-year period after the end of the 2014-2020 eligibility period (by end-2016).

Notes to Editors

Financial instruments provide support to recipients through loans, guarantees and equity investments. They offer two benefits over grants: mobilising additional private and public money to complement the initial public funding and re-using the same funds over several cycles. Because loans have to be paid back, guarantees have to be released and equity investments have to be returned, they should in principle lead to better use of public funds and reduce the likelihood of final recipients becoming dependent on public support.

During 2007-2013, financial instruments set up under the European Regional Development Fund (ERDF) and the European Social Fund (ESF) were used by 25 out of 28 EU Member States. By the end of 2014, around €16 billion had been paid as contributions from ERDF and ESF operational programmes to these instruments. This represents a significant increase from €1.3 billion in 2000-2006 and €0.6 billion in 1994-1999. During 2007-2013, the overall contribution from the EU budget to the 21 financial instruments managed directly or indirectly by the Commission was about €5.5 billion.

The report covers all 1,025 ERDF and ESF financial instruments set up during 2007-2013 under shared management, as well as six centrally managed financial instruments. The data presented is based on the latest available information provided by the Commission in September 2015, reflecting the situation at the end of 2014.

Financial Instruments should not be confused with Derivatives, which are an entirely different class of high-risk investments used by some participants in the financial markets.

Special report No 19/2016: "Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period" is available in 23 EU languages.