



Press Release

Luxembourg, 23 May 2022

Blacklisting underused in protecting EU funds against fraud

Blacklisting is not used effectively to prevent EU funds from being paid out to individuals, businesses or public organisations involved in illegal acts such as fraud and corruption, according to a new report by the European Court of Auditors. The European Commission has blacklisted very few names because of weaknesses in arrangements for identifying those who should be excluded from applying for EU funds. In addition, Member States – despite implementing most EU spending – are not required to set up blacklisting systems per se and have different approaches to protecting the EU’s financial interests. This patchwork of exclusion arrangements undermines the overall effectiveness of blacklisting and results in uneven protection of the EU budget across Europe.

Blacklisting – or exclusion – is a key tool that governments and international organisations use to protect their finances. Since 2016, the Commission has operated an early detection and exclusion system (EDES) – the only exclusion system at EU level – to flag risky counterparties to those responsible for authorising the spending that the Commission manages directly or with partners. The EDES does not apply in areas such as agriculture and cohesion, which are under shared management by the Commission and the Member States and account for the bulk of EU spending.

“Blacklisting can help ensure that EU funds do not fall into the wrong hands, but it is not being used effectively: we have a patchwork of different approaches to exclusion at EU and Member States level,” said Helga Berger, the ECA member in charge of the audit. *“On the other hand, relevant data is either not available or not used in compiling the EU’s blacklist, which undermines its usefulness and deterrent effect. A system is only as good as the information fed into it,”* she added.

The auditors found that the EDES has robust decision-making procedures and includes a broad range of situations in which counterparties should be blacklisted. However, out of 448 counterparties named on the EU blacklist as at the end of 2020, all but 18 had been excluded due to bankruptcy – and are therefore unlikely to apply for EU funds again anyway – and only two due to fraud and corruption. The auditors say that this low rate of blacklisting is because of shortcomings in the arrangements for identifying counterparties in exclusion situations. In particular, responsibility for exclusion is fragmented across the Commission. The Commission departments also face legal and technical difficulties in accessing Member State data such as business registers or criminal records, on which they often have to rely because there are no EU-wide registers or records. But even where relevant data exists at EU level, for example on fraud investigations, it is not always used or usable. In addition, the Commission relies too much on the word of those applying for grants or offering services: if they declare that they are not in any

The purpose of this press release is to convey the main messages of the European Court of Auditors’ special report. The full report is available at eca.europa.eu.

ECA Press

12, rue Alcide De Gasperi – L-1615 Luxembourg

E: press@eca.europa.eu @EUAuditors eca.europa.eu

exclusion situations, the Commission simply accepts their claims without vetting them. The auditors say that this reduces the likelihood of identifying that a counterparty is in an exclusion situation before signing an agreement, and defeats the main purpose of introducing a prevention-based system in the first place.

In cases where the Commission implements EU spending indirectly, implementing partners reported few counterparties in exclusion situations, mainly due to similar issues as in direct management. As regards areas under shared management with Member States, the auditors say that a patchwork of legal obligations on exclusion currently applies, which is not an effective basis for using exclusions to protect the EU budget. There is also no EU-level exclusion mechanism, and the lack of consistency across the Member States means that counterparties in similar situations may be treated differently. The auditors recommend extending the EDES to funds managed by the Member States and expanding the range of excludable counterparties to include affiliates and beneficial owners. They also recommend making better use of data and digital tools

Background information

Under EU law, the European Commission, its partners and Member State authorities must protect the EU budget from fraud and irregularities. Blacklisting helps organisations to avoid entering into financial agreements with untrustworthy counterparties that apply for grants or contracts. The Commission manages a quarter of EU spending alone or with partners such as the European Investment Bank, and the remaining three quarters together with the Member States. In 2020, the EU paid out around €150 billion under financial agreements to farmers, researchers, commercial enterprises, NGOs and others. The EU excludes very few counterparties compared to the US federal government and the World Bank. None of the countries examined during this audit (Estonia, Italy, Poland, Portugal) had established a fully fledged exclusion system for EU funds.

Special report 11/2022, “Protecting the EU budget: Better use of blacklisting needed”, is available on the ECA website (eca.europa.eu). The audit recommendations are intended to help the EU legislators update the EU’s financial rules, the process that is currently ongoing.

Press contact

ECA press office: press@eca.europa.eu

- Damijan Fišer: damijan.fiser@eca.europa.eu – M: (+352) 621 552 224
- Vincent Bourgeais: vincent.bourgeais@eca.europa.eu – M: (+352) 691 551 502
- Claudia Spiti : claudia.spiti@eca.europa.eu – M: (+352) 691 553 547