

# **FIGHTING EU FRAUD: LESSONS FROM RECENT HISTORY**

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# The EU – Diversity & Fragmentation?



# Introduction

- **EU Budget in 2017 approximately 134 billion euros**
- **Approximately 2% of budget subject to irregularity & fraud**  
– “iceberg” analogy
- **80% of budget spent at member state level**
- **OLAF leads and co-ordinates the fight against fraud & irregularity**
- **Rapid expansion of the EU has exacerbated some of the problems in fighting fraud effectively**
- **28 different legal systems, multiplicity of agencies**
- **Yet, problems in older member states too.**

# **New Member States: Problems of Corruption**

- **Change to democracy & market economy created new opportunities**
- **Privatisation – opportunities for corrupt practices & sharp practice – weak Privatisation Agencies**
- **Exploitation of political connections to obtain state assets**
- **Investors left to deal with a jungle of bureaucratic institutions – opportunities to indulge in corrupt behaviour**
- **Widespread corruption in the banking sector**
- **Unfortunate consequences for reputations abroad**

# **Establishment & Assessment of AFCOS**

- **AFCOS Network established prior to accession**
- **Assessment undertaken by Sigma – consulting arm of OECD**
- **Concerns about independence of AFCOS**
- **No national anti-fraud strategy or strategy for protecting EU financial interests**
- **No training programme to support anti-fraud efforts**
- **Network of contact officials in partner institutions not established**
- **Relevant ministries not given OLAF reporting guidelines or reporting formats**
- **AFIS system not installed or linked to relevant ministries**
- **Fragmented investigation approach**

# Management of EU Funds:

- **Concerns over weak administrative capacity – allegations of fraud & irregularity in Romania & Bulgaria**
- **Issues of auditing & control and irregularities reporting in Czech Republic**
- **PHARE Funds in Bulgaria**
- **SAPARD Agency (Bulgaria)– serious problems**
- **Concerns about leaks of sensitive information (Bulgaria)**
- **Negative report from EU in 2008 caused damage to Bulgaria's reputation**
- **Yet Bulgaria did try to respond quickly**
- **SAPARD investigations did illustrate close co-operation between Bulgaria & OLAF – meat processors fraud for example**

# Old Europe: Example of Agricultural Fraud in the UK

- **Joseph Bowden case – farmer convicted & sentenced to 30 months imprisonment in 2000**
- **Bowden received payments for different crops – linseed & fibre flax which covered the same areas of land**
- **Submitted map references for fields to the payment agency which were never checked properly**
- **How was fraud discovered? Robust system of internal controls – NO!!**
- **Weaknesses in internal controls:**
  - **Cross-checks between subsidy schemes not carried out**
  - **Map references not verified**
  - **Payment of subsidy not dependent on verification of crop processing**

# Role of OLAF

- **Budget (2017) of approximately 60 million euros; staff of 405**
- **In existence since 1999, following a critical report by the Court of Auditors into its predecessor, UCLAF**
- **Shadow of UCLAF loomed large in OLAF's formative years**
- **Its task is to protect the EU's financial interest**
- **OLAF fulfils this role by conducting administrative investigations into abuse of EU funds within EU institutions & externally in the individual member states**
- **OLAF also assists member states in the conduct of criminal investigations**
- **It is not a police type body, it depends upon prosecuting bodies in member states**



# Relations with member states

- **Rapid EU expansion exacerbated problem of fragmentation**
- **Malta “felt neglected” during accession process**
- **New member states required to establish AFCOS networks, all communications through lead AFCOS body**
- **AFCOS network now extended to all member states**
- **Yet in Czech Republic & Malta for example, it appears that OLAF has sometimes bypassed the lead AFCOS body. What is the point of AFCOS?**
- **Withdrawn OLAF officials from Romania & Bulgaria within a year of accession – could this have been delayed?**
- **Have been training issues – lack of preparation**

# Rate of Indictment by National Authorities

## Jan 1 2010 – Dec 31 2017

No. of judicial recommendations made by OLAF	*No Decision	Dismissal	Indictment	Decisions Taken (total)	Rate of Indictment (% of decisions taken)
Austria 8	1	5	2	7	29%
Belgium 44	12	17	15	32	47%
Bulgaria 35	13	13	9	22	41%
Germany 33	14	15	4	19	21%
Italy 53	20	14	19	33	58%
Romania 113	26	58	29	87	33%
UK 35	21	9	5	14	36%
Total (EU) 578	225	205	148	353	42%

# Wider lessons to be drawn

- **Issue of fragmentation – more streamlined anti-fraud structure might be easier to manage**
- **AFCOS needs to be more pro-active in analysing skill gaps and seeking help**
- **Reporting requirements should be communicated and explained to relevant agencies**
- **AFCOS network should not be bypassed by OLAF**
- **OLAF officials should be based in candidate countries and stay there after accession**
- **Close working relationships should be built with neighbouring countries**
- **Issue of administrative capacity**
- **Need for more consistency in indictment & prosecution – EPP?**

# Conclusions

- **States such as Romania, Czech Republic & Bulgaria have tried to overcome problems & relations with OLAF have improved**
- **There have been/are problems of fragmentation & skills & knowledge gap which need to be addressed**
- **Level of corruption makes EU funds vulnerable to nefarious activity**
- **OLAF has level of expertise & knowledge that no one member state agency could possess**
- **Helpful for OLAF officials to remain for some time after accession**
- **Whole process not disaster some predicted, but there have been significant problems**

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- **THANK YOU FOR YOUR ATTENTION**