

FRAUD RELATED TO EU FUNDS. THE CASE OF ROMANIA

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Abstract

According to the latest PIF report on the protection of the financial interests of the European Union, in 2021 Romania reported to the European Commission fraud related to European projects worth 1.4 billion euros. The reported amount is quite impressive as it represents over 80% of the total amounts reported as being fraudulently obtained in 2021 by all member states, making Romania a true performer in this regard at the European level.

Starting from these values, using descriptive statistics, the study analyzes the data reported by Romania in the last ten years, compared to the other EU member states, data extracted from the PIF Reports (2012-2021), trying to verify if Romania's status as a champion in terms of fraud with European funds is fully deserved or circumstantial.

Although the numbers show that Romania is indeed a performer in this regard, both in terms of value and the number of reported cases, these values must be viewed in context, as they are influenced by a wide series of factors, including reporting errors, the capacity and willingness of member states to detect irregularities, as well as the particularities of the awarding procedures and contracting periods. Also, in the end, the paper presents some recommendations for strengthening efforts to combat the phenomenon of fraud related to EU funds in Romania.

Keywords

Fraud, EU funds, corruption

JEL Classification

D73, K42

Introduction

One of the major concerns of the European Union throughout its evolution has been the protection of its financial interests and the fight against fraud in this area. To this end, in order to assist in identifying, preventing, and detecting fraud against the EU's financial interests, the EU has adopted an appropriate regulatory framework, equipped itself with stronger analytical capacity, a centralized supervisory system and established an "early

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detection and exclusion system" regarding unreliable economic operators from EU funding. Additionally, every year, the Commission presents a report on the protection of the EU's financial interests (the "PIF report") to the European Parliament and the Council of Ministers. The most recent initiative is the launch of the European Public Prosecutor's Office (EPPO), which has been given the responsibility of investigating, prosecuting and bringing to trial offenses against the EU's financial interests (i.e. various types of fraud, VAT fraud with damage exceeding 10 million euros, money laundering, corruption etc.).

For the 2021-2027 period the EU makes available for member states, a package of over 1.800 billion EUR, representing the largest recovery plan in Europe since the Marshall Plan. Faced with such sums, there is strong concern among all actors involved in managing and controlling EU funds regarding the actual level of fraud affecting these funds, with fears of an increase in the phenomenon in the near future.

There are several estimates of the proportion of EU funding that has been affected by fraud and other criminal activities. Precise estimates are impossible due to the nature of fraud, which is illegal by definition and largely hidden. Comparative studies between member states regarding this aspect are also missing. The Commission did not have comprehensive information on the extent, nature and causes of fraud against the Union budget (European Court of Auditors, 2019a). Some estimates in this regard indicate that between 2.0 and 2.7 billion EUR of EU finances are lost annually due to organized crime. Given the EU budget for 2020 of 160 billion EUR, this amount represents between 1% and 1.6% of the EU budget (CSES, 2021).

The data that appears in the PIF reports represent a valuable statistical source in this regard. Based on sophisticated reporting tools and procedures, they contribute to creating an image regarding the dimensions and evolution of the phenomenon each year.

According to the latest PIF report, in 2021, Romania reported to the Commission fraud related to European projects worth 1.4 billion EUR. The reported amount represents over 80% of the total amounts reported as fraudulently obtained in 2021 by all member states, making Romania a true performer in this regard at the European level.

In the absence of comparative studies about this aspect, using descriptive statistics, the study analyses the data reported in the last ten years, by all EU member states, trying to verify Romania's status as a champion in terms of fraud with European funds is fully deserved or circumstantial. The results show that Romania is indeed a performer in this regard, both in terms of the number of reported cases and their value. However, these values must still be viewed in context, being influenced by a whole series of factors, namely reporting errors, the capacity and willingness of other member states to detect these irregularities, as well as the peculiarities of procurement procedures and contracting periods.

The rest of this paper is structured as follows: section 1 presents a short literature review of how the estimation of the level of fraud can be made, about its connection with corruption and regarding the perception of corruption and tax evasion in Romania; in

section 2 we present the data used, as extracted from the 2012-2021 PIF reports and the methodology (descriptive statistics) used to get insights of the dimension of this phenomenon with a special focus on Romania; section 3 is dedicated to the analysis of the data that show that Romania is indeed a performer in this regard, both in terms of the number of reported cases and their value. The paper ends with the formulation of the final conclusion warning that these values must still be viewed in context, being influenced by a whole series of factors, namely reporting errors, the capacity and willingness of other member states to detect these irregularities, as well as the peculiarities of procurement procedures and contracting periods. At the same time are presented some recommendations for consolidating efforts to reduce the phenomenon of fraud related to EU funds in Romania.

1. Literature review

As already mentioned, the extent to which EU spending in member states is subject to the diversion of funds, either by organized crime or other perpetrators, has proved particularly difficult to quantify. Existing figures, which are found in official reports, are acknowledged to be conservative and underestimate the magnitude of the problem. On the other hand, it is highlighted the fact that the Covid-19 pandemic provided exceptional opportunities for bribery and corruption, especially in public procurement and healthcare (Dikmen and Çiçek, 2023; Bîzoi and Bîzoi, 2023). Also, Batrancea et al. (2023) found that crunching numbers could sometimes uncover corruption that would otherwise go unnoticed.

However, perception and experience-based indicators like the Corruption Perceptions Index (CPI) and the World Bank Control of Corruption Index (WB-CCI) have been used to measure corruption, which is also a hidden crime. Given the strong link between fraud related to EU funds and corruption (Fazekas and King, 2018), the same indicators used to measure corruption were used to determine the real level of this type of fraud. Such evaluations are not carried out to replace official statistics, but rather to complement them, their accuracy being the subject of much criticism. It has been argued that perceptions may not be related to experience (Rose and Peiffer, 2012), they can be influenced by economic growth (Kurtz and Schrank, 2007) or the publicity of high-profile corruption cases (Golden and Picci, 2005). Moreover, it has been shown that these indicators vary very little over time, suggesting that they are too insensitive to change (Mungiu-Pippidi, 2011). It can be said that perceptions of grand corruption are even more uncertain than perceptions of everyday corruption, as experts and citizens have almost no direct experience of this type of corruption. As these indicators are derived mainly from non-representative surveys, distortions of representativeness and reflexivity (i.e., respondents influenced by previous and future measurements) are likely to be exaggerated by the small size of the sample (Golden and Picci, 2005).

Other authors, recognizing the shortcomings of the above indicators, have embarked on developing objective tools based on directly observable behavioural indicators, which indicate likely corrupt behaviour. These studies analyse corruption in various contexts,

such as elections and high-level politics or social services and redistributive policies. For example, Golden and Picci (2005) propose a new corruption measurement tool based on the difference between the amount of infrastructure and public expenditures for it. In addition, Olken (2007) uses independent engineers to review road projects and calculates the amount and value of missing inputs to determine corruption. Other authors use indicators such as the political connections of winning firms (Goldman, Rocholl and So, 2013) or the use of certain exceptional procedures.

Several studies (Fazekas and Kocsis, 2020; Fazekas, Cingolani and Tóth, 2018; Fazekas, Tóth and King, 2016) have estimated the risk or level of corruption control in public procurement by using large volumes of administrative objective data from public procurement databases¹. The solidity of this method was also confirmed by Roman, Popescu and Achim's study (2022a), as the level of fraud was better explained by an objective indicator than a perception and experience-based fraud indicator.

The studies referring to Romania focus on the analysis of the phenomenon of corruption and tax evasion, as well as their determinants. According to author Treisman (2000) and Paldam (2002) corruption is found as being a “poverty disease” and it will disappear when the countries become richer. A high level of corruption is correlated with a low level of development and well-being (Achim and Borlea, 2020). This applies also in the case of Romania where, the study carried out by Duțulescu and Nișulescu-Ashrafzadeh (2016) identified among the main causes of corruption, the low life standard (compared to that of citizens from Western Europe), as well as the general conception of people, which proves to be permissive enough referring to this fact.

An 82-country study of how often voters tended to be bribed ranked Romania 39th, which is only slightly above average, slightly more often than Montenegro and Ethiopia and slightly less often than Indonesia and Iran. Romanian male voters were only slightly more likely to be offered a bribe than Romanian female voters (McGee and Petrides, 2023a).

A related issue is how risky it is to take or receive a bribe. A study of 56 countries ranked Romania 23, meaning that in Romania taking or receiving a bribe was slightly less risky than in most other countries (McGee and Petrides, 2023b). A 52-country

¹ These are used to construct an innovative Corruption Risk Index (CRI) which is based on a deep understanding of the phenomenon of rent extraction, derived exclusively from objective data describing fraudulent behaviour, allows for coherent temporal comparisons within and between countries, and whose calculation methodology can be replicated for many countries using pre-existing data. The method uses large volumes of data from large public procurement databases (Tenders Electronic Daily), data from trade registers, as well as financial and property data. Tenders Electronic Daily (TED) is the online version of the 'Supplement to the Official Journal' of the EU, dedicated to European public procurement. TED publishes 643 thousand procurement award notices a year, including 244 thousand calls for tenders which are worth approximately €545 billion.

study on the prevalence of bribery ranked Romania 40, meaning that bribery is more prevalent in Romania than in most of the other countries in the study, slightly more prevalent than in Vietnam and Lebanon and slightly less prevalent than in Pakistan and Nigeria (McGee and Zhou, 2023).

When asked whether bribery could ever be justifiable, Romanian women were significantly more opposed to bribery than Romanian men (McGee and Benk, 2023a). Although all social classes of Romanians had strong opposition to bribery, the lower middle class and working class showed the strongest opposition, while the lower class showed the least opposition (McGee and Benk, 2023b). The relationship between education and attitude toward the acceptability of bribery was linear. The more education a person had, the stronger the opposition to bribery for the Romanian sample (McGee and Benk, 2023c). Although opposition to bribery increased as income level increased, the differences in mean scores were not significant (McGee and Benk, 2023d). Age was not a significant demographic variable in the Romanian sample, meaning that individuals of all ages had about the same degree of opposition to bribery (McGee and Benk, 2023e). Romanian urban dwellers and rural dwellers expressed equal opposition to bribery (McGee and Guadron, 2023).

Several other studies have been done on bribery (McGee, 2022a; McGee and Benk, 2023, 2024), some of which include Romania. McGee, Achim and Mureşan (2024) examine a number of aspects of bribery in Romania, including culture. Another study (Achim and McGee, 2023) examines bribery as well as other forms of corruption in Romania. Corporate governance in Romania was also studied and found to be somewhat weak (McGee, 2008), although such governance has hopefully improved since that study was done.

Many studies have been done on the ethics of tax evasion (McGee, 2012, 2022b; McGee and Shopovski, 2024a, 2024b) and why people evade taxes (McGee, 2023). These studies basically find that, although tax evasion is generally considered to be unethical, there are cases where it has been justified, either in the theoretical or empirical literature. Some of the main reasons why people have justified tax evasion over the past few millennia are in cases where the government is corrupt or inefficient, or where people do not feel that they are receiving much in exchange for their tax payments. Other reasons have included the inability to pay or the case where the government engages in human rights abuses.

A few studies have been conducted on Romanian opinion toward tax evasion. McGee (2006) surveyed the opinions of Romanian business students and faculty. Comparative studies have been done of on Romania and Bosnia (McGee, Basic & Tyler, 2008) and Romania and Moldova (McGee, 2009). McGee and Vlasin (2024) surveyed Evangelical Christians in Romania. They found that the participants voiced strong opposition to tax evasion. McGee, Achim and Mureşan (2024) compared Romanian views on the ethics of tax evasion to that of other offenses.

Pardisi and McGee (2024a) examined the relationship between confidence in government and attitude toward tax evasion and found that people in the Romanian

sample who did not have much confidence in government had less aversion to tax evasion than did those who held government in higher regard. A ranking of 88 countries on attitude toward the acceptability of tax evasion ranked Romania 65, indicating that it was less opposed to tax evasion than 64 other countries (Pardisi and McGee, 2024b).

Another study found that Romanian men and women both had strong opposition to the acceptability of tax evasion. The difference in their mean scores was not significant ($p = 0.8395$) (Pardisi and McGee, 2024c). The Romanian working class and lower middle class had the strongest opposition to tax evasion (Pardisi and McGee, 2024d). The relationship between education level and attitude toward the acceptability of tax evasion was curvilinear. Although all three education levels showed strong opposition to tax evasion, those with a middle level education were significantly less opposed to tax evasion than those with either more or less education (Pardisi & McGee, 2024e). Another study found that Romanians in the lower income level were significantly less opposed to tax evasion than those in the middle and upper income levels (Pardisi and McGee, 2024f).

The relationship between age and attitude toward tax evasion was found to be linear. The older groups were significantly more opposed to tax evasion than the younger groups (Pardisi & McGee, 2024g). Married Romanians were found to be significantly more opposed to tax evasion than were single Romanians ($p < 0.0001$). (Pardisi and McGee, 2024h). Urban and Rural Romanians were equally opposed to tax evasion (Pardisi & McGee, 2024i).

Regarding the comparative analysis of the situation in the EU member states regarding the level of fraud affecting EU funds, studies are quite limited or focus on related aspects, such as the link between the level of absorption of European funds and subjective indicators of corruption or the performance of new member states in the process of absorbing these funds (Roman, Popescu, Achim, 2022b; Incaltarau, Pascariu and Surubaru, 2020; Achim and Borlea, 2015; Tosun, 2014).

On the other hand, in the PIF reports, although data on member states are presented in parallel, there is no particular approach or special focus on one country or another. The Commission avoids making rankings between countries and specifies each time that the presented data may be influenced by a large number of variables.

In this context, starting from the most recent available data, our paper seeks to analyze the particular case of Romania, in comparison with the other member states, trying to verify if Romania's status as a champion in terms of fraud with European funds is fully deserved or circumstantial.

2. Research methodology

In this paper the centre point of the analysis was investigating and understanding the official data reported by Member States on the number of cases of fraud related to EU funds, attempting to see which are the states that report the most fraud and what lies

behind these numbers. The main purpose was to explore and evaluate what is Romania's position in this context.

Using descriptive statistics, we try to get a clear picture of the magnitude of the phenomenon, and implicitly of the main trends, analysing the data reported by the Member States on the reported fraudulent irregularities related to EU spending on agriculture and fisheries, cohesion policy and pre-accession policy, as shown in the 2012-2021 PIF reports. Unfortunately, due to the way, these reports have been compiled over the years, it has been difficult to obtain data on the problem analysed before 2012. We analyse the total number and the total amount of fraud (intentionally committed irregularities) reported by all Member States (EU28) over the period 2012-2019, and then in 2020-2021 by all Member States (EU27) without the United Kingdom, trying to see which the main trends are in the last years. Based on these values, we focused on the data reported by Romania over the past ten years, compared to other Member States, in an attempt to verify whether Romania's status as a champion in terms of fraud with European funds is fully deserved or circumstantial.

The data were extracted from the annual reports on the protection of the EU's financial interests ("PIF" Reports)². Each year, the Commission, in cooperation with the EU member states submits a report to the European Parliament and the Council. The report presents the measures taken to protect the EU budget, and to counter fraud and any other illegal activities affecting the financial interests of the EU. EU countries are obliged by law to report all irregularities – both fraudulent and non-fraudulent – to the European Commission, which then compiles the information in this annual report. An **irregularity**³ is a non-compliance with the EU rules and requirements connected to EU funds spending. Oftentimes irregularities are genuine errors e.g. not filling out a form correctly, or not complying 100% with the tendering procedure. **Fraud**⁴ is an intentionally committed irregularity (an act or omission relating to the use or presentation of false, incorrect or incomplete statements or documents or to non-disclosure of information in violation of a specific obligation) set off by a malicious intent.

The report, being part of the Commission's policy of transparency for financial management, provides an in-depth analysis of the approaches, procedures and tools used by EU Member States in their fight against fraud, details the level of fraud both on the revenue and the expenditure side of the EU budget, helps to assess which areas are

² https://ec.europa.eu/anti-fraud/about-us/reports/annual-reports-protection-eus-financial-interests-pif-report_en

³ As defined in Article 1 of [Council Regulation \(EC, EURATOM\) No 2988/95](#) of 18 December 1995 on the protection of the European Communities financial interests. OJ L312 of 23.12.1995, p. 1.

⁴ As defined in Article 3 of the [Directive \(EU\) 2017/1371](#) of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law (PIF Directive). OJ L 198/29 of 28.7.2017, p.1.

most at risk, thereby helping to better target action at both EU and national level and follows on the previous year's recommendations.

This report is compiled mainly using data and information submitted by the EU Member States, given that they are on the frontline of managing and controlling 74% of EU expenditure and they are collecting the Traditional Own Resources (customs duties). Information The information available at the Commission level is also used.

To make it easier to report irregularities, a dedicated electronic system has been developed and put at the disposal of Member States and beneficiary countries: the Irregularity Management System (IMS). The IMS is operated within the Anti-Fraud Information System (AFIS) and is used by 35 countries. Member states, candidate countries and other non-EU countries have established a hierarchical reporting structure with different levels of responsibility. Approximately 700 reporting organizations with more than 3,000 IMS users are responsible for the timely reporting of irregularities. The reporting flow has different hierarchical levels and different roles within the same level to ensure multiple quality checks before reports are sent to the Commission. Reporting authorities provide information about who committed the irregularity/fraud (involved persons), the measure of support, such as the fund, program, project, and budget line, the financial impact (expenditures and irregular/fraudulent amount), how/when/where the irregularity/fraud was committed, the method of detecting the irregularity/fraud, administrative, judicial, or criminal follow-up/sanctions imposed.

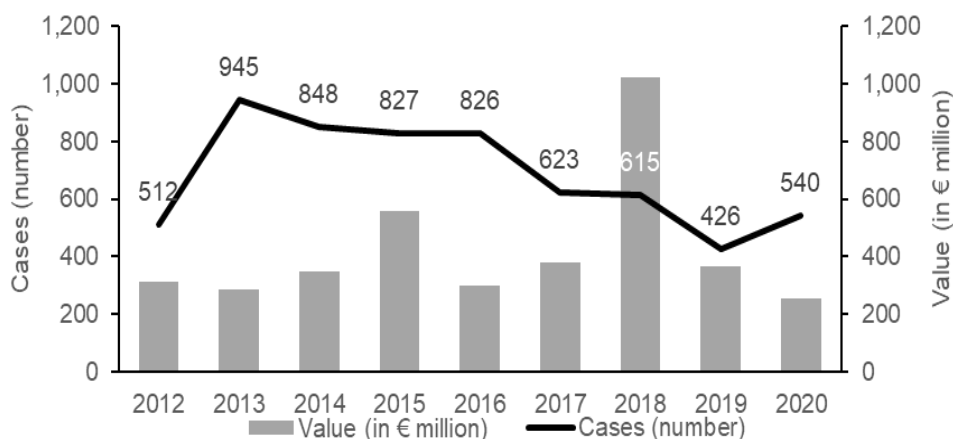
Also, behind this reporting system lies (even if not directly) the risk assessment tool ARACHNE, an integrated IT tool for data mining and data enrichment. ARACHNE establishes a comprehensive database of EU projects implemented under the Funds, provided by managing authorities and paying agencies, and enriches these data with publicly available information in order to identify, based on a set of risk indicators, the projects, beneficiaries, contracts and contractors which might be susceptible to risks of fraud, conflict of interest and irregularities. The tool provides highly valuable risk alerts⁵ to enrich management verifications, but it does not supply any proof of error, irregularity or fraud. ARACHNE can increase the efficiency of project selection, and management checks and further strengthen fraud identification, prevention and detection.

⁵ The Arachne Risk Scoring Tool identifies more than 100 risk indicators, which are grouped into 7 risk categories such as procurement, contract management, eligibility, performance, concentration, other and reputational and fraud alerts. All risk indicators together help the managing authorities in identifying the most risky projects, beneficiaries, contractors and contracts. Once in place and once part of the management and control system the Arachne Risk Scoring Tool can substantially increase the level of prevention and detection and the fight against irregularities and fraud.

3. Results and discussions

3.1. Results

The graph below (Graph no. 1) shows the evolution of the number and the amount of fraud reported by all Member States (EU28) over the period 2012-2020. There is a declining trend in their number in the period 2013-2019, while in 2020 there is a slight increase. As for the amounts affected by the fraud, they stay below the limit of EUR 400 million per year, except for the years 2015 and 2018 (just in the middle of the programming period 2014-2020) when they reach approx. EUR 550 million, respectively EUR 1 billion, in 2020 their value is approx. EUR 250 million, decreasing by approx. 30% over the previous year.



Graph no. 1: Irregularities reported as fraudulent in EU28 2012 – 2019 + EU27 (less UK) 2020

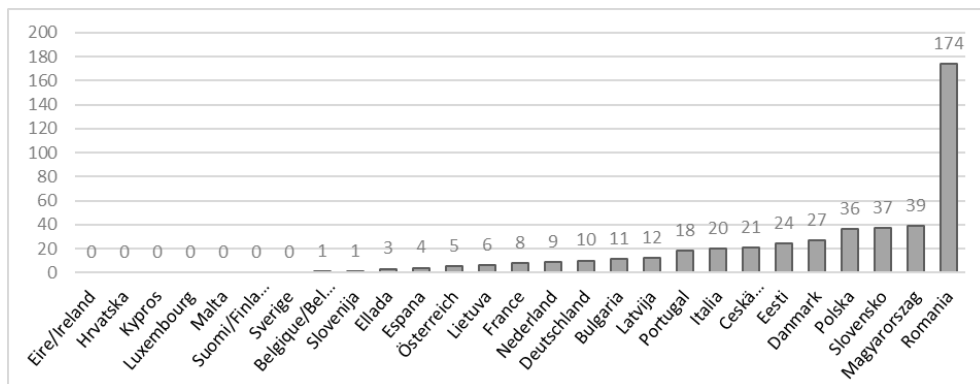
Source: Own processing

Just to have a clear image of what these figures mean, we compared the total amounts foreseen in the long-term EU budget for the period 2014-2020, in terms of expenditure (€ 908.51 billion), with the amount reported as being affected by fraud or irregularities in the same period. It resulted a percentage of 0.35% (€ 3.23 billion) of the total payments made as being affected by fraud.

The figures, although important, do not stand out. And maybe that is exactly why there should be some signs of concern. The information in the global fraud register created by the Chartered Institute of Public Finance and Accountancy, together with the accountancy firm Moore Stephens, suggests that the risk of fraud could be high in grant spending (which accounts for a big share of EU spending). This register is based on a global survey of over 150 accountancy and fraud risk professionals across 37 countries, in order to gauge the most serious risk areas across the globe. Respondents considered 18 different types of fraud and bribery risk, scoring them from 1 (lowest risk) to 5 (highest risk). Almost half (48 %) of all respondents surveyed said that grant fraud

posed a high or very high risk, putting it at number one on the register (European Court of Auditors, 2019a). Therefore, the reported figures do not seem to reflect at all, the above mention risks.

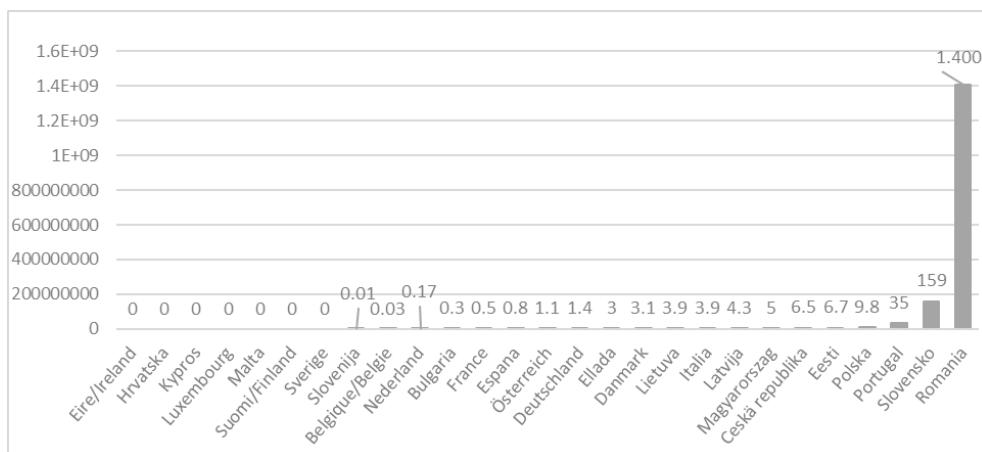
According to the latest PIF Report on the protection of the financial interests of the European Union in 2021, at the level of the entire Union (EU27), a total of 466 cases of fraud related to European projects with an estimated value of approximately 1.66 billion euros were reported. Most of the reported cases come from Romania, namely 174 cases of fraud, which represents approximately 37% of the total cases reported in 2021 by all member states. It is followed at a great distance by Hungary (39), Slovakia (37) and Poland (36) (see Graph no. 2).



Graph no. 2: Number of frauds reported in UE27 - 2021

Source: Own processing

Regarding the value of amounts affected by fraud (Graph no. 3), Romania is once again in first place with 1.4 billion euros, which represents approximately 80% of the total reported at the European level, followed by Slovakia with 159 million euros and Portugal with 35 million euros.

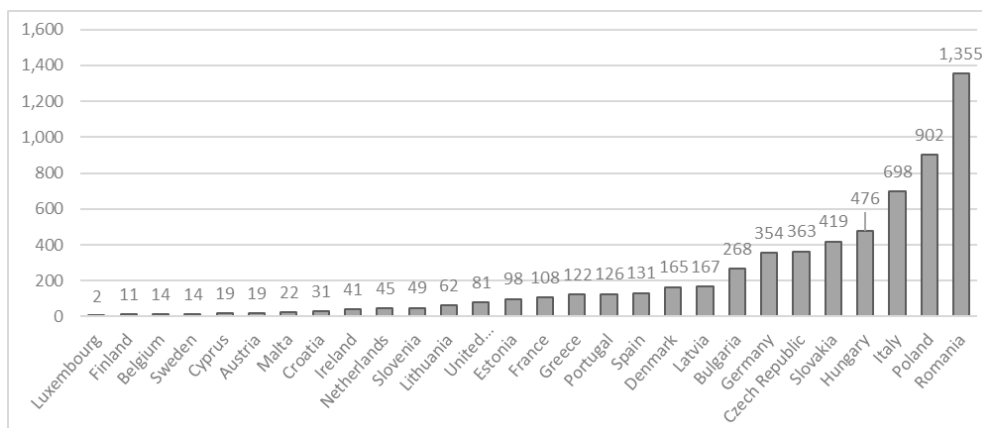


Graph no. 3: Value of reported fraud in UE27 - 2021 (in € million)

Source: Own processing

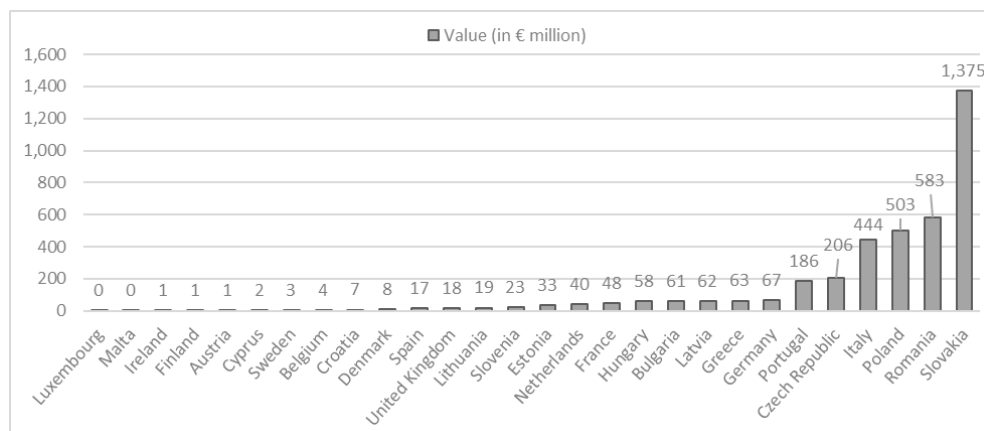
Based on these values, furthermore, we analysed the data reported by Romania over the past ten years, as reflected in the PIF Reports, compared to other Member States, in an attempt to verify whether Romania's status as a champion in terms of fraud with European funds is fully deserved or circumstantial.

Thus, we observed (Graph no. 4) that during the reference period, Romania is in the first place, leading in terms of the number of reported frauds and second place in terms of the amounts involved, competing with countries such as Slovakia and Poland (Graph no. 5).



Graph no. 4: Number of frauds in EU28 - 2012 - 2020 (country level analysis)

Source: Own processing



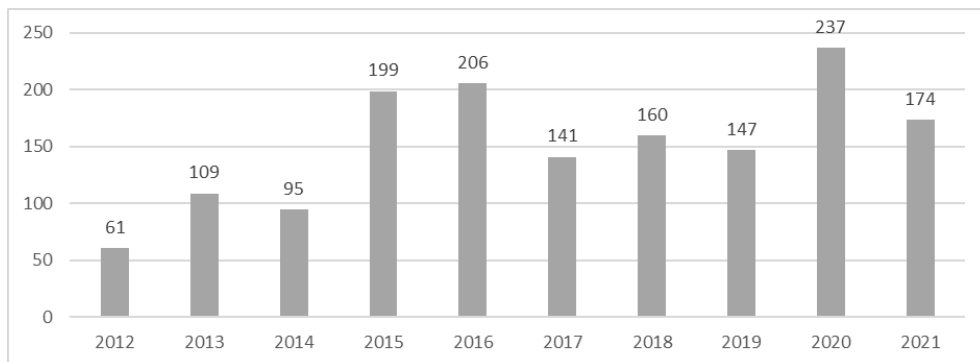
Graph no. 5: Value of fraud in EU28 - 2012 - 2020 (country level analysis)

Source: Own processing

It can also be observed that both at the top and the bottom of the ranking, the same countries are approximately present, even if not in the same order. Thus, Romania, Poland and Italy compete for the top positions both in terms of the number of reported fraud cases and their value. In contrast, Luxembourg seems to be the country with the lowest number of reported fraud cases (only 2), followed by countries such as Finland, Malta, Belgium, Sweden, Austria, Cyprus, and Ireland. It is worth noting the peculiar case of Slovakia, which, although not in the top three in terms of the number of reported cases, leads in terms of fraudulent amounts.

With few exceptions (Italy), it can be observed that the countries where the most fraud cases are reported are the Eastern countries (Romania, Poland, Slovakia, Hungary, Czech Republic), former communist countries that later became EU members, while in the founding countries of the EU (Belgium, Netherlands, Luxembourg, France, Spain), in Nordic countries (Finland, Sweden), or in island countries (Malta and Cyprus), the cases are fewer.

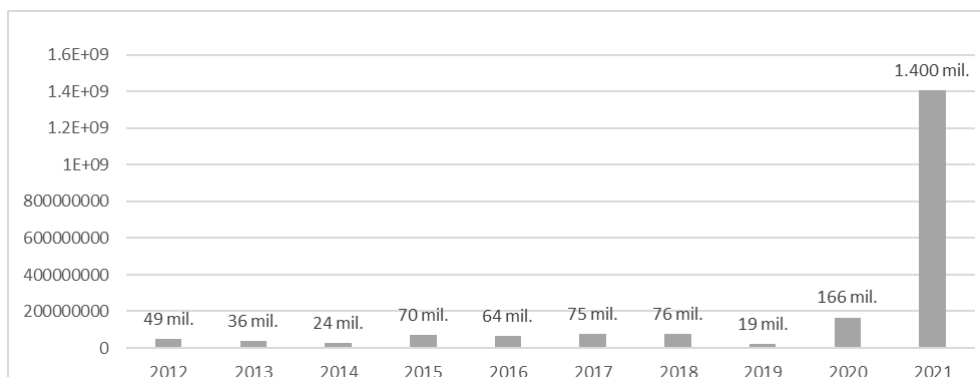
Regarding fraudulent irregularities related to the way these funds were spent, starting from 2013, Romania reports over 100 cases each year, with peaks in 2016 and 2020 when it even exceeded the threshold of 200. Thus, out of the total of 6.628 reported fraud cases at the EU level during this period, almost a quarter are reported by Romania, with 1,525 belonging to Romania, which is over 23%, ranking first in the EU, followed by Poland (938) and Italy (718) (Graph no. 6).



Graph no. 6: Numbers of fraud reported by Romania (2012-2021)

Source: Own processing

Regarding their value, it has increased significantly in the last two years, from 166 million euros to 1.4 billion euros. Moreover, the amount reported as defrauded in 2021 is impressive, representing over 80% of the total amounts defrauded at the EU level (Graph no. 7).



Graph no. 7: Value of fraud reported by Romania (2012-2021) (€ million)

Source: Own processing

On the other hand, out of the total of approximately 5.5 billion defrauded at the EU level, 1,991,438,883 euros are defrauded by Romania, which represents almost 37%. With these figures, Romania is clearly in first place in the ranking of defrauded amounts, followed by Slovakia with 1,534,801,074 euros and Poland with 512,960,008 euros. It should be emphasized that to a large extent, this situation is due to a single

case, an irregularity reported in connection with a major rail infrastructure project worth 1.2 billion euro.⁶

3.2. Discussions

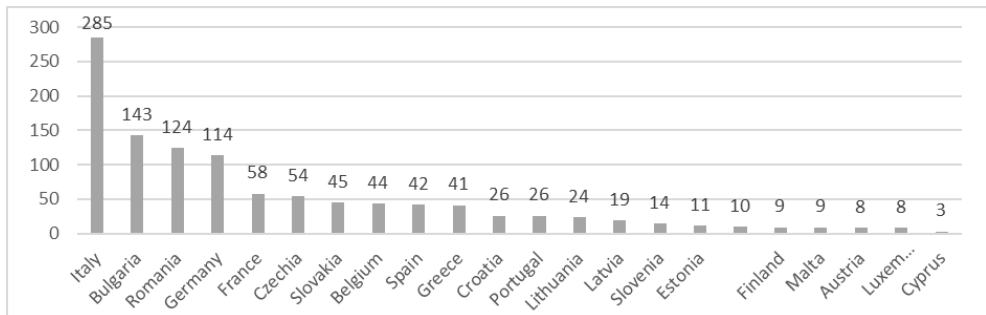
The data shows that in Romania, the issue of fraud is serious, but the country's system has been recognized as having effective mechanisms for identifying potential fraud cases. There are many institutions through which fund documents pass, which reduces the risk of fraud going unnoticed. This efficiency may explain the large number of suspected fraud cases detected.

Furthermore, there is always a time lag between the moment irregularities are committed and the moment they are discovered and reported (on average, between two and three years). Additionally, a large portion of EU spending follows multi-annual cycles, with a progressive increase in execution until the program is closed, which also causes years with the highest reports of irregularities. For these reasons, the annual comparison of irregularity reports does not provide a reliable picture of the situation, especially regarding the financial impact, as this can be influenced by the existence of a very small number of cases with high values (in 2021, in Romania, a single irregularity – wrongly reported - represented 1.27 billion euro; in 2018, in Slovakia, two irregularities represented, respectively, 300 million and 290 million euro).

Then, it should also be taken into account that not all suspicions of fraud are proven true in the end. In this regard, there are also the data available in the latest OLAF and EPPO reports. The EPPO report from 2022 shows that out of a total of 3,318 complaints received at the European level, only 1,117 cases resulted in actual investigations, solved or ongoing. Of these, only 124 are related to Romania, ranking it third among the most investigated countries in the EU, after Italy (285) and Bulgaria (143), with Germany ranking fourth (114), while 5 EU countries do not recognize the authority of this

⁶ Trying to find details about this case, we approached the Management Authority of the Large Infrastructure Operational Program 2014-2020 managed by the Ministry of Investment and European Projects, which reported the fraud. According to them, the affected project is the Curtici-Simeria railway infrastructure project, part of the IV Pan European corridor, and the irregularity was discovered by the DLAF and transmitted for investigation to the DNA, concerning the change of destination of the funds received as an advance - worth about 70 million lei. However, it seems that in the meantime, at the beginning of this year, the value of this irregularity was radically revised (from the initial reported value of 1.2 billion euro for the project to about 300 million euro for the economic contract), and the sum in question was temporarily not included in the expenditure statements (Article 19 of Government Ordinance 66/2011). Given these last-minute clarifications, which will only be included in the official reports at the end of the year, the statistics change radically, in the sense that out of the 5.5 billion euro affected by fraud in the period 2012-2021 at EU level, only approximately 1 billion euro belongs to Romania, i.e., 18%, being surpassed by Slovakia in the ranking of countries with the highest amounts defrauded.

institution, including Poland and Hungary, where the appetite for fraud is well-known (see Graph no. 8).



Graph no. 8: The number of EPPO investigations 2021-2022

Source: Own processing

On the other hand, the OLAF Report from 2021 shows that only 7 out of the 167 fraud cases analyzed at the EU level and sent to EPPO with a recommendation to initiate legal proceedings were linked to Romania, with Belgium (30), France (18), and Italy (16) occupying the top positions.

Most fraud cases in Romania occur (CSES, 2022) during the granting phase, in the procurement procedure, with the most common type of fraud being document forgery (bidders present false documents, such as certificates attesting to a certain experience and forgery of signatures). In the implementation phase, frequently encountered types of fraud are: changing the destination of planned investments (i.e., once the money is obtained, it is used for other purposes, either for personal interests or for other company projects), illegal claims for VAT reimbursement, cases of tax evasion, research plagiarism and conflict of interest. Finally, in the sustainability phase, a form of fraud is the production of false documents to justify compliance with sustainability obligations.

At the institutional level, starting in 2002, Romania has gradually equipped itself with all the necessary monitoring, control and reporting instruments. Diverse authorities, such as the Management Authority (MA), the Certification and Payment Authority (CPA), the Audit Authority (AA), the Department for Anti-Fraud Fight (DLAF), and the National Anti-Corruption Directorate (DNA) share their responsibilities related to this subject, constituting an effective network of control and monitoring in which DLAF holds the role of anti-fraud coordinator and IMS administrator (European Court of Auditors, 2019b).

From the perspective of anti-fraud strategies, Romania is among the 13 European states that have adopted a national anti-fraud strategy. The most recent form of this strategy covers the period of 2017-2023⁷ and focuses on strengthening the national anti-fraud system through preventive measures, increasing the efficiency of fraud

⁷ http://sgglegis.gov.ro/legislativ/docs/2017/05/pnqyfw0t91s7c5k_4drz.pdf

detection/irregularities and administrative investigations/controls, and consolidating inter-institutional cooperation in the area of budgetary debt recovery. In addition to this strategy, Romania has a solid legislative framework that regulates the prevention of fraud in the use of European funds⁸.

Despite this rigorous system, institutions also identify a series of difficulties in the process of identifying or analyzing a complaint, which could turn out to be irregularities, fraud, or nothing at all. The biggest challenge is the time that passes between the moment the offense is committed and its discovery, which generally makes subsequent investigations more difficult. Another difficulty arises from the lack of sufficient collaboration between Managing Authorities and other institutions involved in the system. Last but not least, there is also the problem of the small number of people working in fraud control departments within Managing Authorities, as well as their lack of proper training.

Starting from these reported difficulties, there are proposed measures (CSES, 2022) that could contribute to improving the system of preventing and combating fraud related to EU funds, including: **consolidating institutional cooperation** between AMs and DLAF to harmonize procedures, solutions, and competences, which vary widely from one ministry to another; creating an inter-institutional system for digital transmission of information and concluding collaboration protocols between the various institutions involved in case analysis; **improving reporting procedures**, as it has been found that ongoing investigations or decisions to initiate criminal proceedings are not systematically reported in the IMS system (due to legislative gaps) so that reporting in IMS is unnecessarily delayed and some cases pending in the courts could be completely excluded from the system; **improving control systems**, as the information in ARACHNE needs to be supplemented with data from other national databases (the Trade Registry Office database), or with other sources of information or by introducing new categories of data; **training courses** for institutions involved in program management, both in terms of correctly using specific terminology in fraud cases and using the ARACHNE system, **developing information exchange** between AMs (related to different case solutions), **promoting dialogue** with the Romanian Audit Authority, as well as the European Court of Auditors and **using the Commission guidelines**; **simplifying access and control procedures** to EU funds; **awareness campaigns** with beneficiaries regarding what constitutes fraud and its consequences.

⁸ The Government Emergency Ordinance no. 66/2011 on the prevention, detection and sanctioning of irregularities in obtaining and using European and/or national public funds related to them, Government Decision no. 875/2011 approving the implementing rules of the provisions of Emergency Ordinance no. 66/2011, and Law no. 78/2000 on the prevention, discovery and sanctioning of corruption (which was updated in December 2020 to transpose into national law Directive (EU) 2017/1371 on the fight against fraud to the Union's financial interests through criminal law).

Conclusions

There are several estimates of the proportion of EU funding that has been affected by fraud and other criminal activities. Precise estimates are difficult due to the nature of fraud, which, being illegal by definition, is largely hidden. Some estimates in this regard indicate that between 2.0 and 2.7 billion EUR of EU finances are lost annually due to organized crime.

The data that appears in the PIF Reports represent a valuable statistical source in this regard. Based on sophisticated reporting tools and procedures, they contribute to creating an image regarding the dimensions and evolution of the phenomenon each year. On the other hand, in these reports, although data on member states are presented in parallel, there is no particular approach or special focus on one country or another. The Commission avoids making rankings between countries and specifies each time that the presented data may be influenced by a large number of variables.

In this context, starting from the most recent available data, which shows Romania as the absolute European champion in terms of fraud with European funds, this paper analyses the reported data from all member states over the past 10 years to see if this status is fully deserved or just a matter of circumstance. The results of the study shows that in Romania, the issue of fraud is serious, both in terms of value and the number of reported cases. However, these values must be viewed in context, as they are influenced by a wide series of factors, including reporting errors, the capacity and willingness of member states to detect irregularities, as well as the particularities of the awarding procedures and contracting periods.

Thus, there is always a time lag between the moment irregularities are committed and the moment they are discovered and reported (on average, between two and three years). Additionally, a large portion of EU spending follows multi-annual cycles, with a progressive increase in execution until the program is closed, which also causes years with the highest reports of irregularities. For these reasons, the annual comparison of irregularity reports does not provide a reliable picture of the situation, especially regarding the financial impact, as this can be influenced by the existence of a very small number of cases with high values (in 2021, in Romania, a single irregularity – wrongly reported - represented 1.27 billion euros; in 2018, in Slovakia, two irregularities represented, respectively, 300 million and 290 million euros).

At the same time, Romania's system has been recognized as having effective mechanisms for identifying potential fraud cases. At the institutional level, Romania gradually equipped itself with all the necessary monitoring, control, and reporting tools. There are many institutions through which fund documents pass, which reduces the risk of fraud going unnoticed. This efficiency may explain the high number of cases of alleged fraud detected, although, it should also be taken into account that not all suspicions of fraud are proven true in the end.

Despite this rigorous system, institutions also identify a series of difficulties in the process of identifying or analysing a complaint, which could turn out to be an irregularity, fraud, or nothing at all. The biggest challenge is the time between the

commission of the offense and its discovery, which generally makes subsequent investigations more difficult. Another difficulty arises from the lack of sufficient collaboration between MAs and other institutions involved in the system. Last but not least, there is the issue of the small number of people working in fraud control departments within the MAs, as well as the lack of proper training for them.

Based on these highlighted difficulties, there are proposed measures (CSES, 2022) that could contribute to improving the system for preventing and combating fraud related to EU funds, such as improving institutional cooperation, developing information exchange, organizing continuous training courses, simplifying procedures for accessing and controlling funds, as well as initiating awareness campaigns for beneficiaries regarding what constitutes fraud and its consequences.

On the other hand, it is becoming increasingly evident that there is a need for the most accurate estimation possible of the extent to which EU expenditures in member states are subject to the diversion of funds, either by organized crime or other actors, given the unanimously accepted fact that existing figures, as highlighted in the PIF reports, underestimate the scale of the problem, and that, with certain exceptions, the scientific community has not been particularly focused on the subject. Existing evaluations generally concern the method of estimating corruption, which, like fraud, is a hidden crime.

In this context, future research directions aim to address the sensitive issue of undetected fraud, in order to identify and extract from relevant databases all the necessary elements to build a proper model for predicting the actual level of fraud related to European funds, which can subsequently be used in the activities of institutions with responsibilities in preventing and combating the phenomenon.

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