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Delegations will find attached document SWD(2020) 160 final - PART 1/3.

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PART 1/3

## COMMISSION STAFF WORKING DOCUMENT

**Statistical evaluation of irregularities reported for 2019: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure**

*Accompanying the document*

**31st Annual Report on the protection of the European Union's financial interests**

**Fight against fraud - 2019**

{COM(2020) 363 final} - {SWD(2020) 156 final} - {SWD(2020) 157 final} -  
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# COMMISSION STAFF WORKING DOCUMENT

## Statistical evaluation of irregularities reported for 2019: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure

### *Accompanying the document*

#### **31st Annual Report on the protection of the European Union's financial interests**

#### **Fight against fraud - 2019**

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## 1. INTRODUCTION

### 1.1. Scope of the document

The present document<sup>1</sup> is based on the analysis of the notifications provided by national authorities of cases of irregularities and suspected or established fraud. Their reporting is performed in fulfilment of a legal obligation enshrined in sectoral European legislation.

The document accompanies the Annual Report adopted on the basis of article 325(5) of the Treaty on the Functioning of the European Union (TFEU), according to which “The Commission, in cooperation with Member States, shall each year submit to the European Parliament and to the Council a report on the measures taken for the implementation of this article”.

For this reason, this document should be regarded as an analysis of the achievements of the Member States.

The methodology (including the definition of terms and indicators), the data sources and the data capture systems are explained in detail in the *Commission Staff Working Document – Methodology for the Statistical Evaluation of Irregularities* accompanying the Annual Report on the Protection of the EU financial interests for the year 2015<sup>2</sup>.

### 1.2. Structure of the document

The present document is divided in two parts.

The first part is dedicated to the analysis of irregularities reported in the area of the Traditional Own Resources (Revenue).

The second part, concerning the expenditure part of the budget, is composed of four sections, dedicated to shared, decentralised and centralised management modes.

The sections dedicated to shared management, cover agriculture, cohesion policy and fisheries and other internal policies. Decentralised management refers to the pre-accession policy, while the centralised management section mainly deals with internal and external policies for which the Commission directly manages the implementation.

The second is completed by 28 country factsheets, which summarise, for each Member State, the main indicators and information that have been recorded throughout the analyses.

16 Annexes complement the information and data, providing a global overview of the irregularities reported according to the relevant sector regulations. Annexes 1 to 11 concern Traditional Own Resources, Annexes 12 to 15 complement information on the methodology for the analysis of irregularities concerning expenditure, Annex 16 covers all the expenditure sectors for which Member States and beneficiary countries have a reporting obligation.

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<sup>1</sup> This document does not represent an official position of the Commission.

<sup>2</sup> SWD(2016)237final [http://ec.europa.eu/anti-fraud/sites/antifraud/files/methodology\\_statistical\\_evaluation\\_2015\\_en.pdf](http://ec.europa.eu/anti-fraud/sites/antifraud/files/methodology_statistical_evaluation_2015_en.pdf)

## PART 1 - REVENUE

### 2. TRADITIONAL OWN RESOURCES

#### 2.1 Introduction

The technical explanations and the statistical approach are explained in the accompanying document 'Methodology regarding the statistical evaluation of reported irregularities for 2015'. In summary, the statistics for the 2019 PIF report are prepared based on the total established and estimated amount of Traditional Own Resources (TOR) as reported in OWNRES. Figures on recovery are based only on established amounts. For smuggling cases, the analysis takes into account the reporting rules applicable since 1 September 2019.

The following analysis is based on the data available on the cut-off date (15 March 2020) and aims to provide an overview of the reported cases of fraud and irregularities reported for 2019 together with their financial impact.

#### 2.2 General analysis –Trend analysis

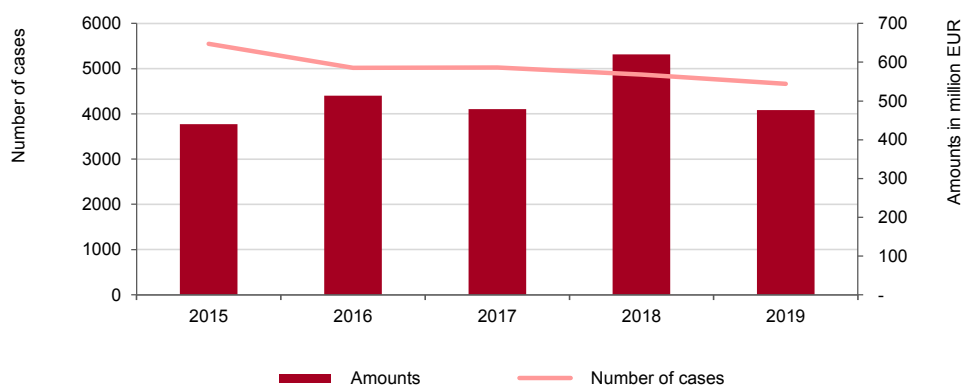
##### 2.2.1 Reporting years 2015-2019

The number of cases reported via OWNRES for 2019 (4 662 is about 7% lower than the average number of cases of irregular cases reported for the 2015-2019 period (5 025).

The total estimated and established amount of TOR involved (EUR 477 million) is about 6 % lower than the average estimated and established amount for years 2015-2019 (EUR 506 million).

In 2019, three big<sup>3</sup> cases for a total amount of about EUR 70<sup>4</sup> million were reported compared to 2018, when six big cases with a total amount of about EUR 199 million affected the total estimated and established amount. Malta did not communicate any case exceeding an amount of EUR 10 000.

CHART TOR1: Total number of OWNRES cases and the related estimated and established amount (2015-2019)



Annex 1 of the summary tables shows the situation on the cut-off date (15 March 2020) for the years 2015-2019.

<sup>3</sup> Cases with an amount of TOR exceeding EUR 10 million.

<sup>4</sup> The NL (2 cases – EUR 57 million) and DE (1 case – EUR 13 million).

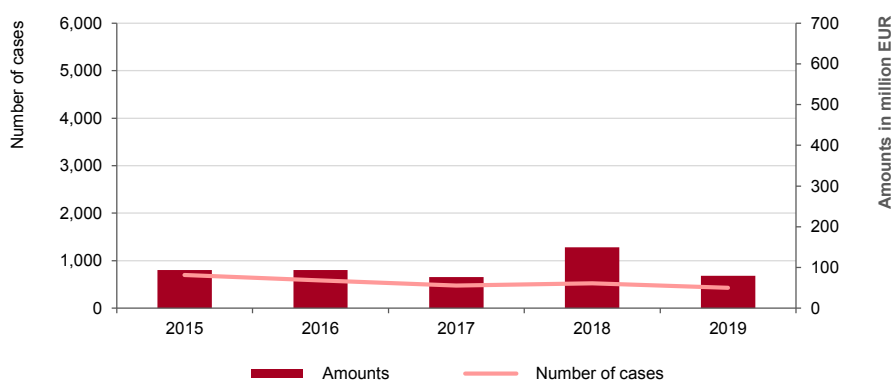
### 2.2.1.1 Irregularities reported as fraudulent

The number of cases reported as fraudulent registered in OWNRES for 2019 (425) is currently 21% lower than the average number of cases reported for the 2015-2019 period (541).

The total estimated and established amount of TOR involved (EUR 80 million) represents a decrease of 19% of the average estimated and established amount for the years 2015-2019 (EUR 98 million).

For 2019, the Czech Republic, Cyprus, Luxembourg, and Malta did not communicate any fraudulent case exceeding an amount of EUR 10 000.

CHART TOR2: OWNRES cases reported as fraudulent and the related estimated and established amount (2015-2019)



On the cut-off date (15 March 2020), 9% of all cases detected in 2019 were classified as fraudulent. The percentage decreased slightly in comparison to 2018 (11%).

Annex 2 of the summary tables shows the situation on the cut-off date for years 2015-2019.

### 2.2.1.2 Irregularities not reported as fraudulent

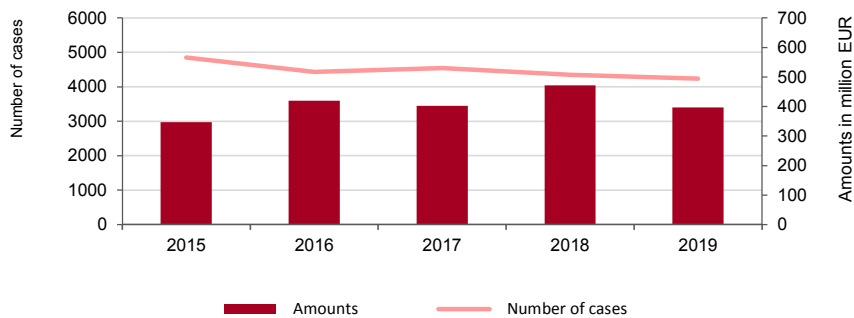
At the same time, the number of cases not reported as fraudulent communicated via OWNRES for 2019 (4 237) was 6% lower than the average number reported for 2015-2019 (4 484).

The total estimated and established amount of TOR (EUR 397 million) was 3% lower than the average estimated and established amount for the years 2015-2019 (EUR 407 million).

Bulgaria and Malta did not report any case of irregularity exceeding an amount of EUR 10 000 for 2019.

CHART TOR3: OWNRES cases not reported as fraudulent and the related estimated and established amount (2015-2019)





Annex 3 of the summary tables shows the situation on the cut-off date for years 2015-2019.

### 2.2.2 OWNRES data vs TOR collection

In 2019, the total established amount of TOR (gross) was EUR 27 billion and about 98 % was duly recovered and made available to the Commission via the A-account. According to the OWNRES data, around EUR 477 million has been *established or estimated* by the Member States in connection with cases reported as fraudulent/non fraudulent where the amount at stake exceeds EUR 10 000.

The total estimated and established amount reported in OWNRES represent 1,79 % of the total collected TOR (gross) amount in 2019.<sup>5</sup> This proportion has decreased compared with 2018 when it was 2,45 %<sup>6</sup>. A percentage of 1,79 % indicates that of every EUR 100 of TOR (gross) established and collected, an amount of EUR 1,79. is registered as irregular (fraudulent or non-fraudulent) in OWNRES. There are differences among the Member States. In seven Member States<sup>7</sup>, the percentage is above the average of 1,79 %. The highest percentage for 2019 can be seen in Finland the Netherlands, Lithuania and Germany with 4,39 %, 2,87 % 2,76 % and 2,58 % respectively.

For the seven<sup>8</sup> Member States which established and made available most of the TOR amounts, the average percentage of the estimated and established OWNRES amounts to established TOR for 2019 was equal to 1,92 %. In comparison with the previous year (2.67 %), this represents an decrease of 0,75 %. For France, the proportion of estimated and established OWNRES amounts to established TOR decreased in 2019 from 4,7 % to 1,13 % compared to the previous year, while for the UK, the Netherlands and Spain it has decreased by 1,32 %, 1,27 % and 0,56 % respectively. For the other three Member States<sup>9</sup>, the average proportion of estimated and established OWNRES amounts to established TOR slightly increased in 2019 (1,77 %) compared to the previous year (1,61 %).

<sup>5</sup> See Annex 4.

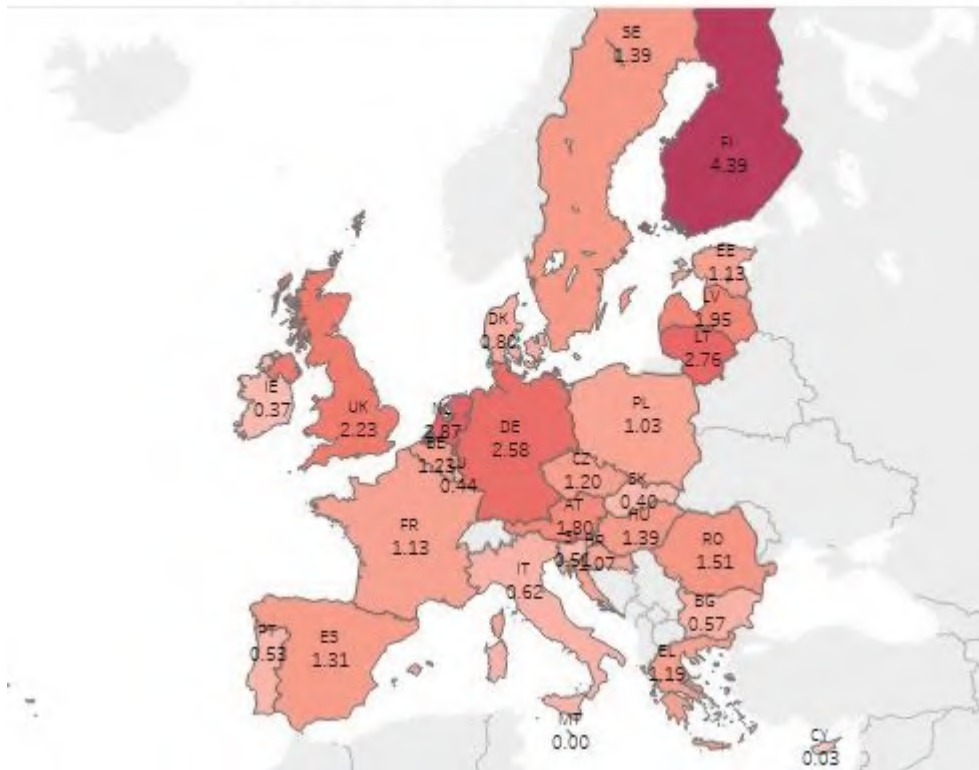
<sup>6</sup> On the cut-off date.

<sup>7</sup> Germany, Latvia, Lithuania, the Netherlands, Austria, Finland and the UK.

<sup>8</sup> Belgium, Germany, Spain, France, Italy, the Netherlands and the UK.

<sup>9</sup> Belgium, Germany and Italy.

*TOR MAP1: Showing the percentage of estimated and established amount in OWNRES of established TOR for 2019*



### 2.2.3 Recovery

The fraud and irregularity cases detected in 2019 correspond to an established amount of EUR 461 million<sup>10</sup>. About EUR 241 million of this was recovered in cases where an irregularity was at stake and EUR 21 million in fraudulent cases<sup>11</sup>. In total EUR 262 million was recovered by all Member States for all cases which were detected in 2019. In absolute figures, Germany recovered the highest amount in 2019 (EUR 102 million) followed by the UK (43 million). This is a starting point for the recovery. Analysis shows that lengthy recovery procedures spread over several years are usually required due to administrative and judicial procedures in complex cases or cases with huge financial impact.

In addition, Member States continued their recovery actions related to the detected cases of previous years.

#### 2.2.3.1 Recovery rates

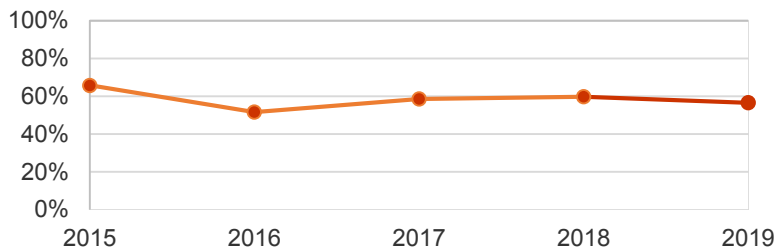
Over the past five years the annual recovery rate has varied between 52% and 66 % (see CHART TOR4). The recovery rate for cases reported in 2019 is currently 57 %<sup>12</sup>. In other words, out of every amount over EUR 10 000 of duties established and reported for 2019 in OWNRES as irregular/fraudulent, approximately EUR 5 700 has already been paid.

*CHART TOR4: Annual recovery rates (2015-2019)*

<sup>10</sup> See Annex 5. The estimated amounts are excluded.

<sup>11</sup> See Annex 10.

<sup>12</sup> See Annex 5.



The overall recovery rate is a correlation between the detection, the established amount and the current recovery stage of individual cases (high additional duty claims are more frequently associated with long lasting administrative and criminal procedures).

Recovery rates vary among the Member States. In five Member States, the entire established amount has already been recovered<sup>13</sup> and in another five Member States the recovery rates are above 90%. In Denmark (91%), Ireland (96%), Spain (95%), Lithuania (99%) and Slovenia (98%). Differences in recovery results may arise from factors such as the type of fraud or irregularity, or the type of debtor involved. Because recovery is ongoing, it can be expected that the recovery rate for 2019 will also go up in the future.

On the cut-off date (15 March 2020), the overall recovery rate for all years 1989-2019 was 61%.

### 2.3. Specific analysis

#### 2.3.1. Cases reported as fraudulent

##### 2.3.1.1 Modus operandi

A breakdown by types of fraud reveals that most fraudulent cases in 2019 relate to smuggling, incorrect classification/misdescription of goods, incorrect origin of goods or country of dispatching, undervaluation and removal of goods from customs supervision.

In 2019, the customs procedure 'release for free circulation remained the procedure most vulnerable to fraud (83% of the number of cases and 89% of the estimated and established amount)<sup>14</sup>. A total of 9% of all cases reported as fraudulent and 5% of all estimated and established amounts in OWNRES cases registered as fraudulent for 2019 fall under the category "Other".<sup>15</sup> A total of 6% of all cases reported as fraudulent and 4% of all estimated and established amounts in OWNRES cases registered as fraudulent for 2019 involve the transit procedure.

Of all cases reported as fraudulent about 75% concern such goods as textiles, electrical machinery and equipment, tobacco and preparation of foodstuffs, footwear, vehicles and articles of iron and steel. In monetary terms those groups of goods represent about 82% of all amounts estimated and established for cases reported as fraudulent. China, Belarus, United States, India and Vietnam are the most important - in monetary terms - countries of origin of goods affected by fraud.

<sup>13</sup> Czech Republic, Estonia, Croatia, Cyprus and Slovakia.

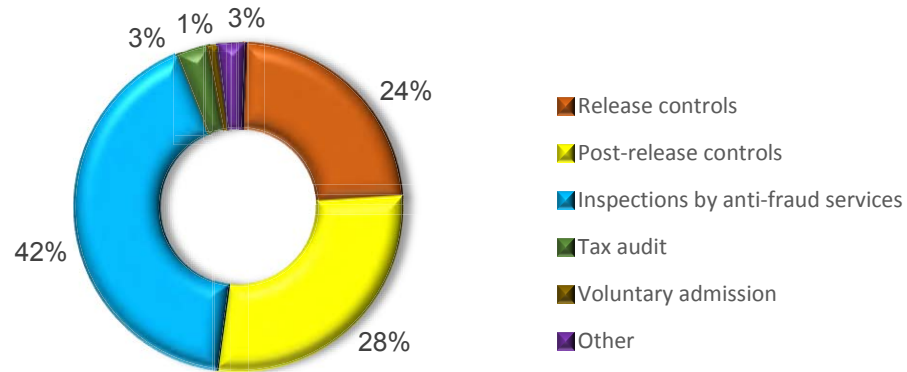
<sup>14</sup> See Annex 6 and 7.

<sup>15</sup> The category "Other" combines, among others, the following procedures or treatments: Processing under customs control, temporary admission, outward processing and standard exchange system, exportation, free zone or free warehousing, re-exportation, destruction and abandonment to the Exchequer.

### 2.3.1.2 Method of detection of fraudulent cases

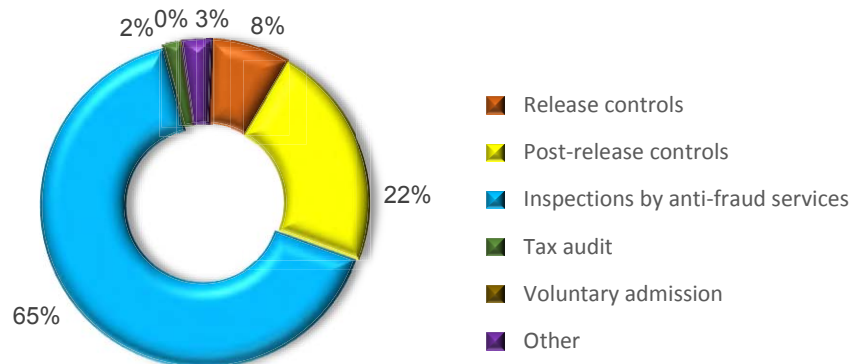
In 2019<sup>16</sup>, inspections by anti-fraud services (42 %) was the most successful method of detecting fraudulent cases followed by post-release controls (28 %) and customs controls carried out at the time of releasing of goods (24 %).

CHART TOR5: Method of detection 2019 – Cases reported as fraudulent – by number of cases



In monetary terms, of the EUR 80 million estimated or established in fraudulent cases registered for 2019, around 65 % were discovered during an inspection by anti-fraud services, 22 % during a post-release control, and 8 % during a control at the time of release of the goods.

CHART TOR6: Method of detection 2019 – Cases reported as fraudulent – by estimated and established amount



In nine Member States more than 50 % of all estimated and established amounts in fraudulent cases were detected by anti-fraud services<sup>17</sup>. As regards amounts, controls at the time of release of goods were the most important method for detecting fraudulent instances in Denmark, Estonia, Latvia, Poland, Slovakia, Finland and the United Kingdom whereas post-

<sup>16</sup> See Annexes 8 and 9.

<sup>17</sup> Germany, Ireland, Spain, France, Italy, Lithuania, Austria, Romania and Slovenia.

release controls were in Belgium, Bulgaria, Croatia, Hungary, the Netherlands, Portugal and Sweden.

In Greece, 96 % of all estimated and established amounts in fraudulent cases were detected by an inspection by services or bodies other than customs.

### 2.3.1.3 Solar panels

In monetary terms, solar panels were the goods most vulnerable to fraudulent irregularities reported in 2019. About 17% (EUR 14 million) of the total amount that was established in fraudulent irregularities concerned this type of goods. Incorrect value was the main type of irregularity. Germany was particularly affected by fraud in comparison to Belgium, Spain and France, which also reported fraudulent cases involving solar panels. Although Member States did not make any reference to Mutual Assistance notices for the most cases reported as fraudulent in 2019 it can be however assumed that the European Anti-Fraud Office's (OLAF) investigations on solar panels resulted in a deeper look by Member States on imports of solar panels.

### 2.3.1.4 Smuggled cigarettes

In 2019, there were 132 cases of smuggled cigarettes registered (CN code<sup>18</sup> 24 02 20 90) involving estimated TOR of around EUR 14 million. In 2018 the number of cases of smuggled cigarettes was 169, totalling around EUR 20 million.

The highest number of cases was reported by the UK (31), Spain (19), Lithuania (16) and Poland (15). The highest amount was reported by Belgium (EUR 2.3 million). No cases were reported by 12 Member States<sup>19</sup>.

Table TOR1: Cases of smuggled cigarettes in 2019

TOR: Cases of smuggled cigarettes* in 2019		
MS	Cases	Established and estimated amount
	N	EUR
BE	8	2.270.805
BG	1	103.102
DE	2	127.103
EE	4	476.648
IE	2	127.612
EL	6	1.852.342
ES	19	1.678.718
FR	8	867.506
LV	10	636.502
LT	16	2.229.086
AT	3	1.011.889
PL	15	1.632.623
RO	3	259.635

<sup>18</sup> Combined nomenclature or CN –nomenclature of the Common Customs Tariff.

<sup>19</sup> Czech Republic, Denmark, Croatia, Italy, Cyprus, Luxembourg, Hungary, Malta, the Netherlands, Portugal, Slovenia and Sweden.

SK	1	15.500
FI	3	55.847
UK	31	1.005.305
<b>Total</b>	<b>132</b>	<b>14.350.224</b>

### 2.3.1.5 Cases reported as fraudulent by amount

In 2019, the estimated and established amount was below EUR 100 000 in 328 cases reported as fraudulent (77% of all fraud cases), whereas it was above EUR 100 000 in 97 cases (23%).

The total estimated and established amount in cases reported as fraudulent, where the amount at stake was above EUR 100 000, amounted to EUR 62 million (77% of the total estimated and established amount for cases reported as fraudulent).

Table TOR2: Cases reported as fraudulent by amount category in 2019

Amount, EUR	N	Estimated and established amount, EUR
< 100 000	328	18.134.731
>= 100 000	97	61.619.478
<b>Total</b>	<b>425</b>	<b>79.754.209</b>

### 2.3.2 Irregularities not reported as fraudulent

#### 2.3.2.1. Modus operandi

A breakdown of irregularities by type of fraud shows that most cases of irregularity related to incorrect declarations (classification, value, origin or use of preferential arrangements) and formal shortcomings (mainly failure to fulfil obligations or commitments).

Not all customs procedures are equally susceptible to irregularities; their vulnerability may change in the course of time as certain economic sectors are briefly targeted. The customs procedure ‘release for free circulation’ is the customs procedure mostly affected by irregularities since at the time of release for free circulation the non-compliance in the customs declaration may relate to a large number of irregularities, e.g. to the tariff, CN code, (preferential) origin, incorrect value, etc. On the other hand, in customs suspension regimes (like warehousing, transit, inward processing, etc. - where the payment of duties is suspended) the sole irregularity that might occur is the subtraction of the goods from customs supervision. Thus, it is normal, and indeed to be expected, that most fraud and irregularities be reported in connection with the procedure ‘release for free circulation’.

In 2019 most of the estimated and established amounts in OWNRES in the EU-28 (89%) for cases reported as non-fraudulent related to the customs procedure ‘release for free circulation’.<sup>20</sup> In all, 7% of all amounts estimated or established in cases not reported as fraudulent in 2019 involved inward processing. Other customs procedures are only marginally affected in 2019.

Of all cases reported as non-fraudulent about 56% concern electrical machinery and equipment, textiles, footwear, vehicles, iron and steel and articles thereof, mechanical machinery and appliances and plastics. In monetary terms those groups of goods represent about 69% of all amounts estimated or established for cases reported as non-fraudulent.

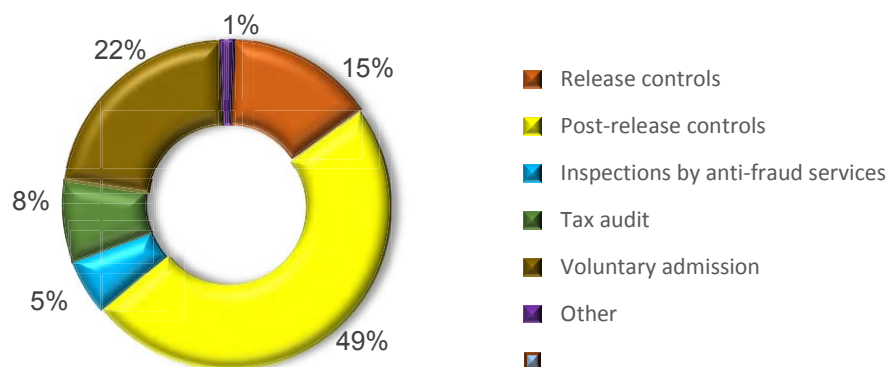
<sup>20</sup> See Annex 6 and 7.

China, United States, Japan, Canada, Zambia, India and Brazil are - in monetary terms – the most important countries of origin of goods affected by irregularities.

### 2.3.2.2 Method of detection of non-fraudulent cases

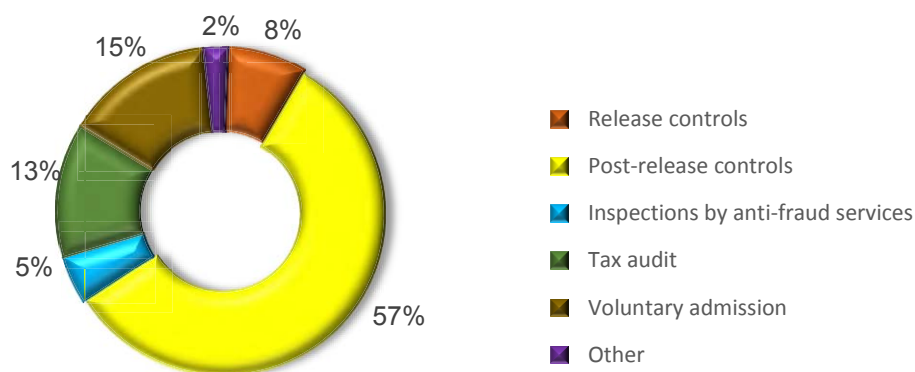
In 2019, most non-fraudulent cases (49%) were revealed during post-release customs controls. Other methods of detection for non-fraudulent cases that featured frequently were voluntary admission (22%), release controls (15%), tax audits (8%), followed by inspections by anti-fraud services (5%).<sup>21</sup>

CHART TOR7: Method of detection 2019 – Cases not reported as fraudulent – by number of cases



Considering the estimated or established amounts, around 57% of all irregularity cases registered for 2019 were discovered during a post-release control, 15% were related to voluntary admission, 13% to a tax audit, whereas 8% related to a control at the time of releasing the goods audit and 5% were found during an inspection by anti-fraud services.

CHART TOR8: Method of detection 2019 – Cases not reported as fraudulent – by estimated and established amounts



In 15 Member States, more than 50% of all non-fraudulent cases — in amounts — were

<sup>21</sup> See Annex 8 and 9.

detected by post-release controls.<sup>22</sup>, whereas in Finland by release controls. In Austria, Portugal and Romania more than 50% of the amounts relating to non-fraudulent cases were detected by anti-fraud services. In Cyprus, all estimated and established amounts in non-fraudulent cases were detected by an inspection of services or bodies other than customs, in Belgium - 59% of all amounts reported in non-fraudulent cases were found by an inspection carried out by other services and bodies than customs.

Significant amounts were reported as non-fraudulent following voluntary admission by the United Kingdom (EUR 27 million) and Germany (EUR 17 million). In 16 Member States voluntary admission was keyed in as a method of detection of cases reported as non-fraudulent<sup>23</sup>.

### *2.3.2.3 Solar panels vulnerable to irregularities – mutual assistance*

In 2019, solar panels originating in China were more vulnerable to non-fraudulent reported irregularities in monetary terms than other goods. About 11% (EUR 46 million) of the total amount that was established in non-fraudulent irregularities concerned this type of goods. Incorrect classification/misdescription and value were the predominant types of irregularity reported. Netherland was particularly affected by this type of goods and infringements. Other seven Member States reported also cases related to solar panels to a smaller extent<sup>24</sup>. Mutual Assistance notices issued by OLAF with regard to those goods in the years 2014-2019 raised the Member States' attention and the need for customs controls on imports of solar panels. About 36% of the total cases reported in years 2014-2019 as non-fraudulent and 44% of the related established amounts were discovered based on an OLAF investigation. This underlined the importance of investigations conducted by OLAF in this particular field.

### *2.3.2.4 Goods emerging to be more vulnerable to irregularities in 2019*

In 2019 'leather' and 'aircrafts and their parts' were on the rise as Member States reported individual cases involving high established amounts.

Incorrect customs value and country of origin or dispatching country were the main pattern of the infringement reported for leather originating in China. The United Kingdom, Poland and Germany were mainly affected by this type of goods and infringements. In total, 78 cases with an established amount of EUR 12 million were reported in 2019<sup>25</sup>.

For 'aircrafts and their parts', Member States reported various failures to observe procedures as modus operandi. In total, 45 cases totalling to EUR 7 million in 2019. Three Member States<sup>26</sup> were particularly affected by individual cases with high financial impact. The vulnerability of this type of goods to irregularities is increasing already since 2018<sup>27</sup>.

### *2.3.2.5 Cases not reported as fraudulent by amount*

In 2019, the established amount was below EUR 100 000 in 3 729 non-fraudulent cases (88% of all irregularity cases), whereas it was above EUR 100 000 in 508 cases (12%).

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<sup>22</sup> Czech Republic, Estonia, Greece, France, Croatia, Italy, Latvia, Lithuania, Hungary, the Netherlands, Poland, Slovenia, Slovakia, Sweden and the UK.

<sup>23</sup> Belgium, Czech Republic, Denmark, Germany, Ireland, Spain, France, Italy, Latvia, the Netherlands, Austria, Poland, Slovakia, Finland, Sweden and the UK.

<sup>24</sup> Germany, Spain, France, Italy, Finland, Sweden and the UK.

<sup>25</sup> In 2018, a total of 102 cases were reported totalling to an established amount of EUR 3 million, whereas 87 cases (EUR 6 million) in 2017, 78 cases (EUR 4 million) in 2016 and 81 cases (EUR 3 million) in 2015.

<sup>26</sup> Finland, Sweden and the UK.

<sup>27</sup> In 2018, a total of 40 cases totalling to an established amount of EUR 13 were reported in comparison to 39 cases (EUR 1 million) in 2017, 54 cases (EUR 3 million) in 2016 and 63 cases (EUR 3 million) in 2015.



The total estimated and established amount in non-fraudulent cases where the amount at stake was above EUR 100 000 amounted to EUR 298 million (75 % of the total estimated and established amount for non-fraudulent cases).

*Table TOR3: Cases not reported as fraudulent by amount category in 2019*

Amount, EUR	N	Estimated and established amount, EUR
< 100 000	3 729	98.661.425
>= 100 000	508	298.457.039
<b>Total</b>	<b>4 237</b>	<b>397.118.464</b>

## 2.4 Member States' activities

### 2.4.1 Classification of cases as fraudulent and non-fraudulent and related rates

For 2019, Member States reported 425 cases as fraudulent out a total of 4662 cases reported via OWNRES, which indicates a Fraud Frequency Level (FFL) of 9%. The differences between Member States are relatively large. In 2019, 11 Member States categorised between 10-50% of all cases reported as fraudulent. However, Czech Republic, Cyprus, Luxembourg and Malta did not categorise any cases reported as fraudulent.<sup>28</sup> Nine Member States categorised less than 10% of cases as fraudulent.<sup>29</sup> Four Member States registered more than 50%<sup>30</sup> of cases as fraudulent.

In 2019, the total estimated and established amount affected by fraud in the EU was EUR 80 million and the overall incidence of fraud<sup>31</sup> was 0.3%. For 2019, the highest percentages can be seen in Lithuania (1.98%) and Latvia (1.39%).<sup>32</sup>

The total estimated and established amount affected by cases not reported as fraudulent was more than EUR 397 million which indicates an irregularity incidence<sup>33</sup> of 1,49%. The highest percentages can be seen in Finland (4.27%), the Netherlands (2.79 %) and the UK (2,2%).<sup>34</sup>

There are large differences between Member States' classifications, which may partly depend on their classification practices. This can influence the comparison of the amounts involved in cases reported as fraudulent and as non-fraudulent by Member States. Moreover, individual bigger cases detected in a specific year may affect annual rates significantly. Factors such as the type of traffic, type of trade, the level of compliance of the economic operators, the location of a Member State can influence the rates significantly. Bearing in mind these variable factors, the rates of incidence can also be affected by the way a Member State's customs control strategy is set up to target risky imports and to detect TOR-related fraud and irregularities.

<sup>28</sup> Malta did not report any irregular case in 2019.

<sup>29</sup> Denmark (3 %), Germany (4 %), Spain (9%), Hungary (2 %), the Netherlands (2 %), Romania (9 %), Finland (7 %), Sweden (1 %) and the UK (4 %).

<sup>30</sup> Bulgaria (100 %), Estonia (71 %), Latvia (58 %) and Lithuania (63 %).

<sup>31</sup> The percentage that the total established and estimated amounts related to fraudulent cases represent on the total TOR collected by Member States.

<sup>32</sup> See Annex 4.

<sup>33</sup> The percentage that the total established and estimated amounts related to non-fraudulent cases represent on the total TOR collected by Member States.

<sup>34</sup> See Annex 4.

## 2.4.2 Recovery rates

### 2.4.2.1 Cases reported as fraudulent

Over the 1989-2019 period, OWNRES shows that, on average, 20% of the initially established amount was corrected (cancelled). The recovery rate (RR) for all years (1989-2019) is 37%.<sup>35</sup> The RR for cases reported as fraudulent and detected in 2019 was 30%<sup>36</sup> which is the lowest annual rate for fraudulent cases reported in the last five years. The RR for cases reported as fraudulent is in general much lower than that for cases not reported as fraudulent.

### 2.4.2.2 Cases not reported as fraudulent

OWNRES shows that on the cut-off date, on average 36% (1989-2019) of the initially established amount in relation to cases not reported as fraudulent has been corrected (cancelled) since 1989. The RR for non-fraudulent cases reported for 2019 is 61%.<sup>37</sup> On the cut-off date, the annual RR for the last five years has varied between 54% and 71%. The overall RR for all years (1989-2019) for all cases not reported as fraudulent is 72%.<sup>38</sup>

### 2.4.2.3 Historical recovery rate (HRR)

The HRR<sup>39</sup> confirms that in the long term recovery in cases reported as fraudulent is generally much less successful than in cases not reported as fraudulent (see table TOR4). Classification of a case as fraudulent is thus a strong indicator for forecasting short- and long-term recovery results.

Table TOR4: Historical recovery rate (HRR)

Irregularities	HRR 1989-2016
Reported as fraudulent	43,32 %
Reported as non-fraudulent	90,28 %
<b>Total</b>	<b>75,12 %</b>

## 2.4.3 Commission's monitoring

### 2.4.3.1 Examination of the write-off reports

Ten Member States submitted in 2019 59 new write-off reports to the Commission. In 2019, the Commission assessed 193 cases totalling EUR 120 million. In 43 of these cases amounting to EUR 34 million<sup>40</sup>, the Commission's view was that the Member States did not demonstrate satisfactorily that the TOR was lost for reasons not imputable to them so they were considered financially responsible for the loss.<sup>41</sup>

<sup>35</sup> This calculation is based on 19 474 cases, an established amount of EUR 2,85 billion (after already processed corrections) and a recovered amount of EUR 1,04 billion.

<sup>36</sup> See Annex 10.

<sup>37</sup> See Annex 10.

<sup>38</sup> This calculation is based on 91 581 cases, an established amount of EUR 6,27 billion (after already processed corrections) and a recovered amount of EUR 4,51 billion.

<sup>39</sup> The HRR expresses the recovery result in both complex and easy cases. Established and closed cases from 2017 onwards are therefore excluded, because these are predominantly easy cases (complex cases can generally not be closed within three years).

<sup>40</sup> See Annex 11.

<sup>41</sup> The late payment interest totalled to EUR 7 million in 2019.

Examination of Member States' diligence in write-off cases constitutes a very effective mechanism for gauging their activity in the field of recovery. It encourages national administrations to step up the regularity, efficiency and effectiveness of their recovery activity, since any lack of diligence leading to failure to recover results in individual Member States having to foot the bill.

#### *2.4.3.2 Commission's inspections*

In its TOR inspections, the Commission has put a special emphasis on Member States' customs control strategies and closely monitors their actions and follow-up in relation to the observations made during the inspections. Member States generally show their willingness to adapt their control strategies and to progressively implement systems that provide for efficient and effective risk analysis to protect the EU's financial interests. However, budgetary constraints and the increase of tasks related to security have led to cuts in the number of customs officials in charge of duty collection control in many Member States. Coupled with continuing trade facilitations and simplification of procedures and controls, this may undermine the control efficiency and thus pose risks to the protection of the EU financial interest.

Considering the magnitude of the TOR losses at stake, between 2017 and 2019, the Directorate-General for Budget (DG BUDG) carried out on-the-spot inspections on the control strategy in the field of customs value in all Member States, to check how they complied with their obligation of proper collection and timely making available of TOR to the EU budget. As a result, several inspection reports, the latest finalised in the end of 2019, found that the EU financial interests were not effectively protected, leading to significant losses of TOR for the EU budget. Besides, to date OLAF has also issued investigation reports to six Member States (Hungary, Greece, Slovakia, Czech Republic, Malta and France) with financial recommendations. In general, Member States have not fully implemented the necessary measures to tackle the undervaluation fraud consistently.

DG BUDG in 2018 already asked all Member States to assess their own liability and correct the amounts established since 2012. Now the Commission will quantify the TOR losses in all Member States.

Other subjects of the TOR inspections by the Commission services in Member States in 2019 were the keeping of the separate account and the corrections of the normal account, the Binding tariff information and the control strategy for large businesses.

One general conclusion drawn by the Commission from its inspections in Member States in recent years is that their control strategies are increasingly shifting from customs controls at the time of release of goods to post-release customs controls. The customs controls before or at the time of release of goods remain however indispensable for addressing undervaluation and the detection of new types or patterns of fraud or irregularities.

Sound and flexible control strategies, interconnected IT applications combined with well-equipped and skilful customs officials is the key to combat loopholes exploited by fraudsters and to enable customs an effective protection of the EU' financial interests. The Commission and Member States are currently in the process of reviewing existing systems and IT applications and developing new ones. They, together with the compliant traders, are in a leading role in meeting challenges of today's global economy becoming digital and adapting quickly to new economic circumstances. OLAF plays also hereto an important role in defining anti-fraud policy and coordinating stakeholders' actions with regard to fraud prevention and detection. Furthermore, EU-wide and international cooperation in detection of

irregular cases is more and more required taking into account the fraud diversion and spreading of specific fraud mechanism.

#### *2.4.3.3 Particular cases of Member State failure to recover TOR*

If TOR are not established or recovered because of an administrative error by a Member State, the Commission applies the principle of financial liability<sup>42</sup>. Member States have been held financially liable in 2019 for nearly EUR 50 million<sup>43</sup>, and new cases are being given appropriate follow-up.

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<sup>42</sup> Case C-392/02 of 15/11/2005. These cases are typically identified on the basis of Articles 119 and 120 (administrative errors which could not reasonably have been detected by the person liable for payment) and 103(1) (time-barring resulting from Customs' inactivity) of the Union Customs Code or on the basis of non-observance by the customs administration of Articles of the Union Customs Code giving rise to legitimate expectations on the part of an operator.

<sup>43</sup> It includes customs duties (EUR 25,4 million) and interest (EUR 24,2 million).

## PART II - EXPENDITURE

### 3. COMMON AGRICULTURAL POLICY

#### EXECUTIVE SUMMARY

**CAP, RD, SA, MM, DA.** This part of the Statistical Evaluation focuses on the irregularities related to the Common Agricultural Policy (CAP). The latter is split in support to rural development (RD) and direct support to agriculture (SA). SA consists of direct payments to farmers (DA) and measures to respond to market disturbances (MM).

#### *All irregularities*

**After a significant drop, the number of irregularities related to CAP has been stable since 2017. The number of detections followed a flat trend for SA, while it declined for RD, due to the decrease of the number of irregularities related to PP 2007-2013, which was to be expected.** The two CAP components have been featuring different patterns. During the period 2015-2019, irregularities related to SA fluctuated around a flat trend, which is consistent with the annual implementation of the underlying operations. Irregularities concerning RD peaked instead in 2015, dropped for two years and then they joined in following a flat trend. This pattern is consistent with that of the European Structural and Investment Funds (ESIF) (see Section 4) and is due to the fact that RD is financed by programmes in a multiannual context. In fact, during 2015-2019, detections concerning PP 2007-2013 (closed in 2015) and PP 2014-2020 (undergoing implementation) have been overlapping and the downward trend in RD was due to the decline of PP 2007-2013 cases, which was to be expected. The issue is further analysed in the Report, separately for fraudulent and non-fraudulent irregularities.

**Fluctuations in financial amounts involved in irregularities should not be misinterpreted.** It must be kept in mind that a significant portion of these financial amounts was linked to a relatively low number of cases. In such context, fluctuations are more likely and should not be overemphasised.

**2019: stability in financial amounts, but only on the surface. Irregular financial amounts in RD dropped. The upswing of irregular financial amounts in SA was due to a few ‘big’ detections in MM.** In 2019, the overall financial amounts were relatively stable, but SA and RD followed two opposite patterns. Irregular financial amounts in RD dropped by 35%, much more than the number of RD-related detections, which decreased by just 4%. Irregular financial amounts in SA experienced an upswing of 61%, much more than the number of SA-related irregularities, which increased by just 10%. However, this strong increase does not seem to point to a broad structural change. SA financial amounts tend to fluctuate dramatically due to the occasional detection of cases concerning intervention in agricultural markets, which involve exceptionally high financial amounts. In 2019, three such cases with an average financial amount of EUR 20 million were reported.

**RD was more affected by irregularities than SA.** Despite these opposite patterns, RD remained more affected by irregularities than SA (as a whole), in proportion to payments received by the Member States. As in past years, the weight of the financial amounts involved in irregularities on payments is very different between the two types of support, as it is 0.1% for SA and 1.2% for RD (0.5% on the overall 2019 CAP expenditure - see also below about Fraud Detection Rates (FDR) and Irregularities Detection Rates (IDR)). This is consistent with the findings of the European Court of Auditors (ECA), as concerns errors, according to which

payments made on an entitlement basis (including direct aid to farmers, which is the biggest part of SA) are not affected by a material level of error, while payments made on a reimbursement basis are affected by a higher level of error.

**Looking at ‘core’ trends of the average financial amounts (AFA).** AFA of the reported irregularities can be taken as an indicator of the detection capacity. In order to avoid overinfluence of a few irregularities with very high financial amounts involved distorting the overall picture, focus is on identifying ‘core’ trends, excluding outliers.

**‘Core’ AFA of MM was the highest in the CAP context and increased, which is in accordance with past European Commission analysis and recommendations. ‘Core’ AFA of RD declined, which may point to the need for better targeting controls.** The ‘core’ AFA of SA irregularities followed a rather stable trend, with a slight tendency to increase over time. However, the ‘core’ AFA of MM (which is part of SA) rose to a new higher level, much higher than the other CAP sectors. While prevention issues or increased threat from wrongdoers cannot be excluded, this increase of the MM ‘core’ AFA might also be attributable to better detection activities in the Member States, following better risk assessments, as recommended by the Commission in the 2016 PIF Report. However, an analysis of the reasons for the start of the controls that led to detect the irregularities shows that most of the increase of the ‘core’ AFA of MM was due to *‘irregularities detected and reported by an EU-body’*. The ‘core’ AFA of RD has been on a clear downward trend, which has brought it to the level of DA ‘core’ AFA, at the bottom.

**Detections were (too) concentrated in a few Member States, in particular for fraudulent irregularities, beyond what could be expected on the basis of the distribution of relevant payments.** This could be due to many different factors, including different underlying levels of irregularities and fraud, a different quality of the prevention or detection activities or different practices concerning the stage of the procedure when potentially fraudulent irregularities were reported. The concentration of detections was more accentuated for fraudulent irregularities, suggesting that different approaches to the use of criminal law to protect the EU budget or reporting practices concerning suspected fraud could be an additional and significant factor leading to further dishomogeneity among Member States.

*Focus on irregularities reported as fraudulent*

**The number of detections has been declining and concentrated in few Member States.** During the 2015-2019 period, the overall number of irregularities reported as fraudulent followed a downward trend. As mentioned, the detection of fraudulent irregularities was concentrated in few Member States.

**There was a strong decrease of RD fraudulent irregularities, due to the decline in detections related to PP 2007-2013, which was to be expected, and a slow start of detection related to PP 2014-2020, which should be monitored.** The overall downward trend was mainly shaped by the strong decrease of the number of irregularities reported as fraudulent in relation to RD. The number of RD-related irregularities fell below the number of SA-related irregularities in 2017 and since then the gap has been slowly increasing. As a result, during the period 2015-2019, the overall number of RD fraudulent irregularities was just 17% higher than that of SA fraudulent irregularities. The decrease in the number of RD fraudulent irregularities was due to a decline of cases related to PP 2007-2013, not compensated by a slow start of cases related to PP 2014-2020, which should be closely monitored to ensure this is not due to a reduced focus on fraud detection.

**Drop in the irregular financial amounts, in line with a persistent downward trend for RD and no ‘big’ detections for SA.** In 2019, the total financial amounts involved in

irregularities reported as fraudulent dropped by 62%. This was due to a continued declining trend for RD and a significant downswing for SA. The fall concerning SA was mainly due to the fact that both in 2017 and 2018, one Member State reported one MM irregularity where high financial amounts were involved, which did not happen in 2019.

**RD was still more affected by fraud than SA. However, market measures, which are part of SA, recorded the highest FDR, at 0.87%, more than four-times that of RD. This was also (but not only) due to a few MM irregularities involving exceptional financial amounts.** During the period 2015-2019, total financial amounts involved in SA irregularities were higher than those related to RD irregularities, but in relation to payments made, RD was still much more affected by fraud. The FDR of RD was 0.20%, double that of CAP in general. Reimbursement-based expenditure, such as RD, is more prone to errors than entitlement-based expenditure and provides more opportunities for fraudsters. Most of SA payments concern direct payments to farmers, which recorded the lowest FDR, at 0.01%. In this area the Integrated Administration and Control System (IACS) and Land Parcel Identification System (LPIS) support cross-checks that allow detection of fraud/irregularities and enhance prevention. However, another part of SA, market measures, accounted for the highest FDR, at 0.87%. Excluding a few irregularities involving exceptional financial amounts, the FDR would still be 0.37%, nearly double that of RD.

**‘Core’ AFA for RD was higher than ‘core’ AFA for SA. However, ‘core’ AFA for MM was the highest. ‘Core’ AFA for fraudulent irregularities was higher than that of non-fraudulent ones.** During the years 2015-2019, ‘core’ AFA for RD has been fluctuating, while ‘core’ AFAs for SA and DA have remained relatively stable. Unlike non-fraudulent irregularities, ‘core’ AFA for fraudulent irregularities has constantly been higher for RD than SA, despite the contribution of MM to the latter. In fact, ‘core’ AFA for MM is much higher than the others, including because of a significant increase in 2018. The rise of the ‘core’ AFA for MM in 2018 was due to a broadened basis of irregularities with high financial amounts involved. In 2019, the ‘core’ AFA for MM remained high, in particular because less cases with low financial amounts were reported. For MM and RD, the ‘core’ AFA of fraudulent irregularities was significantly higher than the ‘core’ AFA of non-fraudulent ones.

**Concerning SA, mainly fraudsters just relied on the falsification of the documentary proof or of the requests for aid. Fraud risks were also related to the creation of artificial conditions for receiving financial support.** Fraudulent irregularities falling exclusively within the category ‘(non-)action’ were less reported, but they accounted for a high AFA. The highest AFA (nearly EUR 2 million) was recorded for a few cases of conflict of interest combined with other categories of violation. Fraudulent irregularities only concerning ‘Product, species and/or land’ were also frequently detected, in particular related to ‘overdeclaration and/or declaration of fictitious product, species and/or land’. During the period 2015-2019, many fraudulent irregularities for the creation of artificial conditions for receiving financial support were reported by one Member State through the category ‘Ethics and Integrity’, indicating a fraud risk that was either underdetected by the other Member States or reported through other categories of irregularities, such as the one related to the quality of the beneficiary.

**In the framework of RD, many detections were just related to the implementation of the action. The creation of artificial conditions for receiving financial support is a source of concern also for RD.** Similar to SA, mainly fraudsters just relied on the falsification of the documentary proof or, to a lesser extent, of the request for aid. However, a significant number of detections and irregular financial amounts were related exclusively to the category ‘(non-)action’. Irregularities exclusively related to ‘Ethics and integrity’ also ranked high, in

terms of number of detections; however none of these irregularities were reported in 2019 and very few in 2018 (while most of them were reported in the years 2015-2017). As was the case for SA, most of these violations concerned the creation of artificial conditions for receiving financial support, which points to a risk for the EU budget and thus deserves further analysis.

#### *Focus on irregularities not reported as fraudulent*

**Stable detections for SA, with fluctuating financial amounts, on account of a few ‘big’ MM cases. Downward trend for RD, due to declining detections related to PP 2007-2013, which was to be expected.** The trend of SA non-fraudulent irregularities was flat, but subject to large fluctuations in terms of financial amounts, due to one to three MM cases involving exceptionally high financial amounts, which were reported in 2015, 2017 and 2019 - but not in 2016 and 2018. Since 2015, RD non-fraudulent irregularities followed a decreasing trend, in particular in terms of financial amounts involved. The decrease in the number of RD non-fraudulent irregularities was due to a decline in cases related to PP 2007-2013, that was not compensated by the initiation of cases related to PP 2014-2020, which however was in line with the start of the previous programming period.

**RD was still more affected by non-fraudulent irregularities than SA. However, market measures, which are part of SA, recorded the highest IDR, at 1.85%, nearly double RD. This was also (but not only) due to a few MM irregularities involving exceptional financial amounts.** Despite the different patterns in terms of detections, during the period 2015-2019, the number of RD non-fraudulent irregularities were still more than double that of the SA non-fraudulent irregularities. The difference in terms of financial amounts was smaller, whereas, in relation to payments made, RD was still much more affected by non-fraudulent irregularities than SA. The IDR of RD was 0.98%, nearly three-times that of CAP in general. Most of SA payments concern direct payments to farmers, which recorded the lowest IDR, at 0.07%. As mentioned, this is consistent with the finding that entitlement-base expenditure (such as direct payments to farmers, which represent most of CAP expenditure) is less prone to error than reimbursement-based expenditure (such as RD). However, another part of SA, market measures, accounted for the highest IDR, at 1.85%. Excluding a few irregularities involving exceptional financial amounts, the IDR would be 1.18%, still higher than that of RD.

**As mentioned, the level and decline in ‘core’ AFA of RD may point to the need for better targeting controls. The ‘core’ AFA of MM has been the highest in the CAP context and growing fast.** The ‘core’ AFA of RD irregularities has been decreasing and, since 2016, it has basically been on par with the ‘core’ AFA for DA (the lowest). The ‘core’ AFA for SA was higher than the ‘core’ AFA of both of RD and DA, pushed by the financial amounts involved in the MM cases.

**In relation to SA, violations concerning the ‘request’ were the most frequent, but the highest financial amounts were associated with the implementation of the action.** Violations concerning the ‘request’ were often related to falsification, which would not be expected for non-fraudulent irregularities. Similar findings apply to the category ‘documentary proof’. During the period 2015-2019, the highest irregular financial amounts were due to infringements falling exclusively in the category ‘(non) action’, nearly 50% of which were reported in 2019, due to two cases accounting for nearly EUR 45 million. Other prevalent categories of SA irregularities not reported as fraudulent were ‘Product, species and/or land’ (mostly ‘Overdeclaration and/or declaration of fictitious product, species and/or land’), ‘Beneficiary’ (mostly ‘Operator/beneficiary not having the required quality’) and ‘Ethics and integrity’. Non-fraudulent irregularities under the last of these were fewer than for



the irregularities reported as fraudulent and, apart from one case of conflict of interest, all of these violations were reported as 'other'. One further conflict of interest case was detected in combination with other categories of violation.

**Concerning RD, the highest number of detections and irregular financial amounts were related only to the implementation of the action.** Violations concerning only 'documentary proof' or the 'beneficiary' were also prevalent. However, these were also often combined with '(non-)action' and with each other. There were just few cases of conflict of interest.

*A zoom in on market measures*

**Fraud affecting the wine sector: investment and promotion in third countries.** The highest number of MM irregularities reported as fraudulent was related to national support programmes for the wine sector, in particular investment measures and promotion in third country markets.

**Fraud affecting the fruit and vegetables sector: aid for producer groups.** Another sector with many irregularities reported as fraudulent was 'Fruits and vegetables', in particular due to 'aid for producer groups for preliminary recognition', which is the measure with the highest irregular financial amounts. Irregularities concerning this measure concerned, in particular, 'investment' and, to a lesser extent, 'formation, administrative operations'.

**Also 'Promotion' was significantly affected by fraud, in particular in terms of the financial amounts involved.** The irregularities were split between violations related to the EU markets and third country markets, but the financial amounts involved in the latter were higher.

**High financial amounts were involved in a single fraudulent irregularity concerning 'refunds for poultry meat'.** This is the reason why, the section 'Pigmeat, eggs and poultry, bee-keeping and other animal products' ranked high in terms of irregular financial amounts.

*Follow up on the recommendation to improve detection capabilities*

**In the context of the antifraud cycle, the detection capability is a key feature and the Commission issued recommendations to improve it. Little progress has been made, so far.** The detection capability contributes to the effectiveness and efficiency of the system for the protection of the EU budget. In the context of the 2017 and 2018 PIF Reports, the Commission recommended to the Member State to further exploiting the potential of risk analysis, tailoring the approach to the different types of expenditure and taking advantage of best practices and the risk elements highlighted in those Reports. Furthermore, the Commission recommended facilitating and assessing the spontaneous reporting of potential irregularities and strengthening the protection of whistle-blowers, who are also a crucial source for investigative journalism. So far, it seems there has been little improvement on the ground, at least in terms of detection after request for reimbursement to the Commission, but it may be too early to draw conclusions.

*Profile of persons involved*

**In the majority of fraudulent irregularities, legal entities were involved, in particular private companies or associations. In a significant one-third of cases, natural persons were involved.** For 56% of fraudulent irregularities, only legal entities were involved, while for 35% they were only natural persons. Most fraudulent irregularities report a single natural or legal person. Focusing on legal entities, the majority of them were private companies, while the second largest group was non-profit organisations, most of which were associations. For most Member States, private companies represent the majority of the reported persons.

The only exception with a larger sample is Romania, evenly split between private companies and associations, together accounting for approximately half of the total reported by Romania.

#### *Anti-fraud activities of Member States*

**Irregularities tend to be protracted for more than two years.** The Member States are requested to indicate the date or period when the irregularity was committed. The majority of irregularities covered extended spans of time, in particular in the case of fraudulent irregularities, consistent with their intentional nature. The average duration of these protracted irregularities is slightly more than 2 years, both for fraudulent and non-fraudulent cases.

**With reference to the period 2015-2019, the FDRs of Bulgaria and Romania exceeded 0.40%. FDR was significantly higher than the EU average also in Poland, Estonia and Lithuania. However, the picture changes depending on the CAP sector.** Detection rates are the outcome of the control activities of the Member States and they can vary across Member States because of different underlying levels of irregularities and fraud, but also of different quality of the prevention or detection activities or different reporting practices. Concerning RD, Romania, Lithuania, Estonia and Bulgaria recorded the highest FDRs, while Lithuania, Portugal and Bulgaria scored the highest IDRs. Concerning MM, FDR was the highest in Bulgaria and Poland but it was significantly higher than the EU average also in Czechia and Hungary. IDR was the highest in Romania, Malta, Poland and Denmark, but it was more than double the EU average also in Hungary. Concerning DA, Italy and Romania recorded both the highest FDRs and the highest IDRs.

**Detection levels were different in different Member States.** In all CAP sectors, RD, MM and DA, the level of detection of irregularities and fraud across the different Member States was not homogenous. The concentration among Member States was analysed in detail in the 2018 PIF Report, with reference to the period 2014-2018.

**For RD and MM, concentration concerned in particular fraudulent irregularities. This suggests, in particular, the need for more homogeneity concerning the use of criminal law to protect the EU financial interests.** With specific reference to RD, this analysis suggests that this difference in concentration between detections and payments was less evident for non-fraudulent irregularities, which might be taken as an indication of more homogenous approaches to management and administrative controls, even if the examination of data concerning individual Member States highlighted significant discrepancies. The concentration of detections was instead more accentuated for fraudulent irregularities, suggesting that different approaches to the use of criminal law to protect the EU budget could be an additional and significant factor pushing for further dishomogeneity among Member States. Also with specific reference to MM, the above mentioned analysis found that the concentration of detections went beyond what could be expected on the basis of the distribution of relevant payments, especially for fraudulent irregularities.

**DA was the CAP sector featuring more concentration.** This may be due to different factors, including dishomogeneous management and control systems and, for the fraudulent irregularities, different approaches to the use of criminal law to protect the EU financial interests. Specific problems may occur at the local level that need to be correctly and promptly addressed by the competent national authorities.

**About 21% of the irregularities reported as fraudulent were dismissed, on average after about five years. The dismissal ratio varied across the Member States, as the related average time.** High *dismissal ratios*, especially when associated with high *pending ratios*, may be due to a detection phase that led to report to the judicial authority cases that were not fraudulent or to an investigation/prosecution phase that gave low priority or did not have

enough tools, resources or information to properly address the case, especially when high dismissal ratios are associated with high average times. Low *dismissal ratios* may be positive, but they may also be the result of many irregularities still pending.

**Analysis suggests a significant underestimation of the *dismissal ratio*.** About 66% of the irregularities reported as fraudulent were still pending, but for more than one third of them no changes of status are to be expected. This is due to the fact that 40% of the irregularities that were still labelled as suspected fraud at the end of 2019 were already closed.

**The cases of established fraud were few and, on average, these decisions were reached after about three years. This may point to the need to invest further in the investigation/prosecution phase.** At EU28 level, *established fraud ratio* was lower than 14%. It was zero or very low in many Member States. In Bulgaria, the ratio was relatively high, at 26%, and based on the (by far) highest number of cases of established fraud. In general, the *established fraud ratio* is not likely to increase significantly because, as mentioned, while 66% of cases are still classified as suspected fraud (*pending ratio*), about 40% of them is already closed and, in any case, between 6 and 13 years have already passed since the detection of the irregularity.

### 3.1. Introduction

The overarching objectives of the CAP are (1) viable food production, (2) sustainable management of natural resources and climate action, and (3) balanced territorial development. There is a direct management component but over 99% of expenditure is disbursed by Member States under shared management.

For the purpose of this analysis, the CAP is split into two main parts:

- SA, through direct payments to farmers and measures to respond to market disturbances, such as private or public storage and export refunds, which are financed by the European Agricultural Guarantee Fund (EAGF);
- RD programmes of the Member States, which are mainly financed through the European Agricultural Fund for Rural Development (EAFRD).

The European Maritime and Fisheries Fund (EMFF) provides funding and technical support for initiatives that can make the fishery industry more sustainable. The EMFF is the successor of the European Fisheries Fund (EFF), for which the resources had been committed in full by the end of 2014. Table NR1 also shows the financial resources available for this policy area. However, in light of their belonging to the ESIF family, EFF and EMFF are treated together with the other structural funds (see Section 4).

Type of expenditure <sup>(1)</sup>	Management mode	Year 2019	
		Payments EUR million	% of total EU budget %
Support to agriculture (SA)	Shared	43,721	30.3%
Rural development (RD)	Shared	13,837	9.6%
EMFF + EFF	Shared	614	0.4%
<b>TOTAL</b>			

(1) 'Support to agriculture' includes budget chapters 05.02 and 05.03. 'Rural development' includes budget chapter 05.04

The CAP is financed by two funds, EAGF and EAFRD, which form part of the EU's general budget. For the past 50 years, the CAP has taken a large part of the EU's budget, which is now about 40% (see Table NR1).

The European Commission is responsible for the management of the EAGF and the EAFRD. However, the Commission itself does not make payments to beneficiaries. According to the

principle of shared management, this task is delegated to the Member States, who themselves work through national or regional paying agencies. Before these paying agencies can claim any expenditure from the EU budget, they must be accredited on the basis of a set of criteria laid down by the Commission.

The paying agencies are, however, not only responsible for making payments to the beneficiaries. Before making payments, they must, either directly or through delegated bodies, satisfy themselves of the eligibility of the aid applications. The checks to be carried out are laid down in the CAP sectorial regulations and vary from one sector to another. Specific national authorities are competent in relation to RD operations.

The expenditure made by the paying agencies is then reimbursed by the Commission to the Member States, on a monthly basis - in the case of the EAGF – or on a quarterly basis - in the case of EAFRD. While entitlements and measures supported under the EAGF follow a yearly flow, those under the EAFRD are implemented through multi-annual programmes, very much like the interventions financed through the other ESIF funds. In general, reimbursements are subject to possible financial corrections which the Commission may make under the clearance of accounts procedures.

Table NR2 shows the financial resources available for the CAP, including details of the shares devoted to market measures and direct payments to farmers.

Type of expenditure <sup>(1)</sup>	Management mode	Year 2019	
		Payments	% of total EU budget
		EUR million	%
SA: Intervention in agricultural markets	Shared	2,372	1.6%
SA: Direct payments	Shared	41,349	28.7%
RD: Rural development	Shared	13,837	9.6%
<b>TOTAL</b>		<b>57,558</b>	<b>39.9%</b>

(1) 'Intervention in agricultural markets' includes budget chapter 05.02. 'Direct payments' includes Budget chapter 05.03

### 3.2. General analysis

#### 3.2.1. Irregularities reported in the years 2015-2019

In general, Member States are requested to communicate irregularities involving financial amounts above EUR 10,000. However, a number of irregularities involving financial amounts equal to or below this threshold have been reported by several Member States (see Table NR3).<sup>44</sup> Furthermore, a number of Member States reported cases with financial amounts involved equal to zero. This may be due to the fact that the competent national authority did not have enough information yet to quantify the irregular amounts involved. However, this should not be the case once the irregularity is closed. Table NR3 also provides an overview by Member State of the closed cases, for which the national authorities have not reported the irregular financial amounts involved.

It is not clear why some Member States reported many more '*below-the-threshold*' irregularities than others did. It should be considered that an irregularity may consist of irregular or fraudulent operations which are interlinked and whose total financial impact exceeds EUR 10,000, even though each operation remains below the threshold.<sup>45</sup> In such case,

<sup>44</sup> When inputting a case into IMS, the contributor is requested to specify the currency in which the amounts are expressed. Where the value of this field is 'EUR' or the field has been left blank, no transformation is applied. Where this field has been filled with another currency, the financial amounts involved in the irregularity are transformed on the basis of the exchange rates published by the ECB at the beginning of 2020.

<sup>45</sup> See Sections 8.1 and 9.3 of the '*Handbook on Reporting of Irregularities in shared management*'.

some Member States may have chosen to report these irregularities separately, while other Member States may have combined them into a single irregularity. Another explanation may be that irregularities were reported because the initial estimation of the irregular financial amounts exceeded EUR 10,000, but subsequent updates lowered these financial amounts below the threshold. Furthermore, about 30% of the 'below-the-threshold' irregularities were still open as of the cut-off date<sup>46</sup>; the competent national authority might have reported them with a provisional estimation, pending the exact quantification of the financial amount involved. Other explanations may include typographical errors or mis-interpretation of the reporting rules.

As shown by Table NR3, there were about 550 irregularities with a financial amount below EUR 10,000, which represented about 3% of all the relevant irregularities. In order to make use of all information reported by the Member States, all these irregularities are considered in the analysis for this report. However, Table NR3 provides the reader with additional information to better interpret data about detections in different Member States.

*Table NR3: Number of irregularities reported during 2015-2019 with a 'below-the-threshold' financial amount involved*

Member State	Irregularities not reported as fraudulent		Irregularities reported as fraudulent	
	<= EUR 10000 <sup>(1)</sup>	EUR 0 <sup>(2)</sup>	<= EUR 10000 <sup>(1)</sup>	EUR 0 <sup>(2)</sup>
	N	N	N	N
AT	1	0	1	0
BE	3	1	0	0
BG	0	0	2	0
CY	0	0	0	0
CZ	6	0	8	0
DE	1	0	0	0
DK	1	0	2	1
EE	0	0	0	0
ES	30	1	0	0
FI	0	0	0	0
FR	19	33	0	0
GR	2	0	0	0
HR	0	0	1	0
HU	0	0	0	0
IE	5	4	1	0
IT	122	0	5	0
LT	49	8	1	0
LU	0	0	0	0
LV	1	0	1	0
MT	0	0	0	0
NL	40	14	4	1
PL	15	0	2	0
PT	0	0	12	0
RO	75	0	7	1
SE	1	0	0	0
SI	0	0	0	0
SK	0	0	1	0
<b>TOTAL EU27</b>	<b>371</b>	<b>61</b>	<b>48</b>	<b>3</b>
UK	34	21	7	0
<b>TOTAL EU28</b>	<b>405</b>	<b>82</b>	<b>55</b>	<b>3</b>

<sup>(1)</sup> Irregularities for which the financial amount involved was equal to or less than EUR 10000 (excluding irregularities for which the financial amount involved was 0)

<sup>(2)</sup> Closed or expired irregularities for which the financial amount involved was 0

Table NR4 shows the number of irregularities (fraudulent and non-fraudulent) reported by the Member States for the period 2015-19 in relation to RD and SA. Cases are classified as:

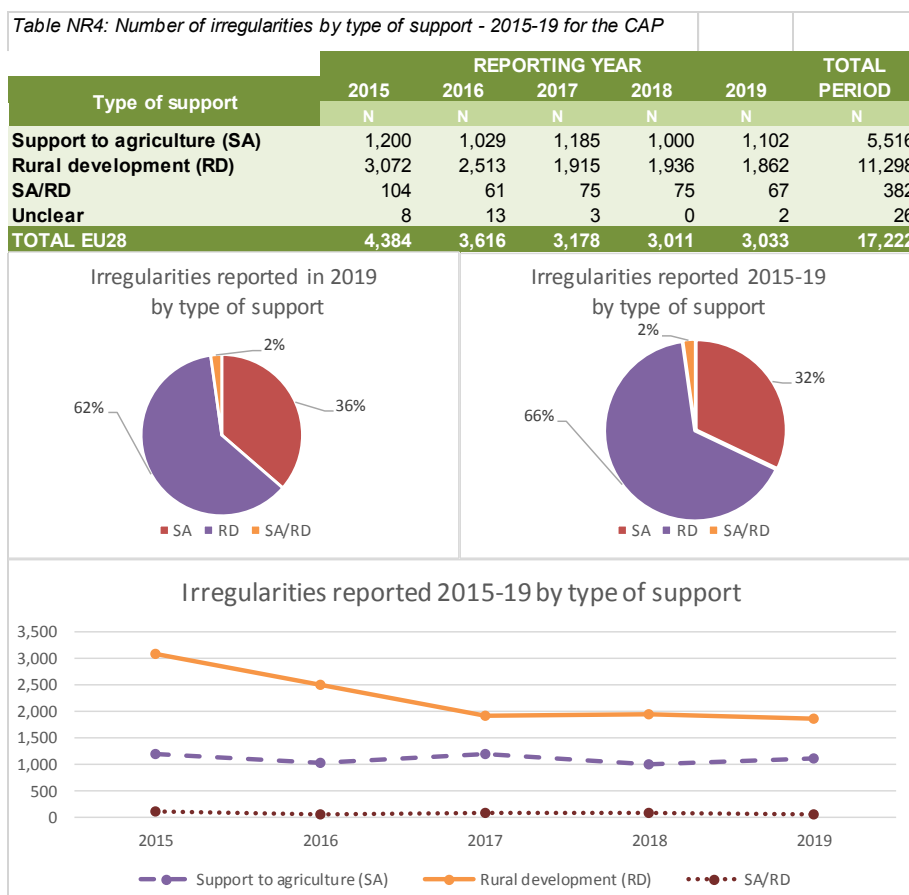
- RD, where they concern only expenditure for rural development;

<sup>46</sup> Data for this analysis were downloaded from IMS on 9/3/2020.

- SA, where they do not concern rural development expenditure. SA includes expenditure in relation to intervention in agricultural markets (MM) and direct payments to farmers (DA);
- 'SA/RD', where they concern both types of expenditure (RD and SA);
- 'Unclear', where information is not considered sufficient to classify the irregularity in any of the other categories.

Annex 12 provides a detailed explanation of the classification of irregularities.

In the whole Report, when reference is made to 'fraudulent' or 'fraud', it includes '*suspected fraud*' and '*established fraud*'.<sup>47</sup>



**The number of detections has been stable since 2017 and was concentrated in few Member States.** After a significant drop for two consecutive years, the number of the irregularities related to CAP has been following a flat trend since 2017. In 2019, this was the outcome of two opposite, yet moderate, changes: a 4% decrease in the number of RD irregularities reported and a 10% increase in the number of SA irregularities reported. This increase in SA irregularities was due to a growth both of cases related to direct payments to

<sup>47</sup> '*Suspected fraud*' means an irregularity that gives rise to the initiation of administrative or judicial proceedings at national level in order to establish the presence of intentional behaviour, in particular fraud, as referred to in Article 1(1)(a) of the Convention drawn up on the basis of Article K.3 of the Treaty on European Union, on the protection of the European Communities' financial interests'. Regardless of the approach adopted by each Member State, the ratification of the 1995 Convention has equipped every country with a basis for prosecuting and possibly imposing penalties for specific conduct. If this happens, i.e. a guilty verdict is pronounced and is not appealed against, the case can be considered '*established fraud*'. See '*Handbook on 'Reporting irregularities in shared management*' (2017).

farmers and, to a lesser extent, of cases concerning market measures. The irregularities notified by a minority of Member States (Romania, Italy, Portugal, Spain, Poland, France and Hungary) represented more than 70% of the total number of the irregularities reported in 2019. These Member States received 57% of the CAP payments in 2019.

**SA irregularities fluctuated around a flat trend, while RD irregularities peaked in 2015, dropped for two years and then flattened.** The two types of support (RD and SA) are provided following two different modes. SA follows an annual implementation. During the past five years, the number of SA irregularities has been fluctuating between 1,000 and 1,200 (see the chart associated to Table NR4), so the 2019 increase is not out of pattern. The trend of irregularities detected and reported in relation to RD is influenced by the fact that RD is financed by programmes in a multiannual context; the trend therefore was similar to that of the ESIF, which are also implemented through multiannual programmes (see Section 4). Consequently, the irregularities related to RD noticeably increased until 2015, then declined at a rather constant and sustained pace during 2016-2017, before stabilising in 2018 and 2019 (see the chart associated to Table NR4). Overall, the decrease from the 2015 peak has been about -40%. In fact, during 2015-2019, detections concerning PP 2007-2013 (closed in 2015) and PP 2014-2020 (undergoing implementation) have been overlapping and the RD downward trend was due to the decline of PP 2007-2013 cases, which was to be expected. The issue is further analysed in the next sections, separately for fraudulent and non-fraudulent irregularities.

**A significant portion of the financial amounts is linked to a relatively low number of cases. In that context, fluctuations are more likely and should not be misinterpreted.** Table NR5 provides information about the financial amounts involved in the cases considered in Table NR4.<sup>48</sup> The trend of the financial amounts must be assessed while bearing in mind that it can be strongly influenced by individual events of significant value. During the period 2015-2019, cases that involved financial amounts over EUR 1 million represented less than 1% in terms of numbers, but 34% in terms of amounts.<sup>49</sup> 54% of these '*over 1 mn*' cases concerned RD, while 45% concerned SA.

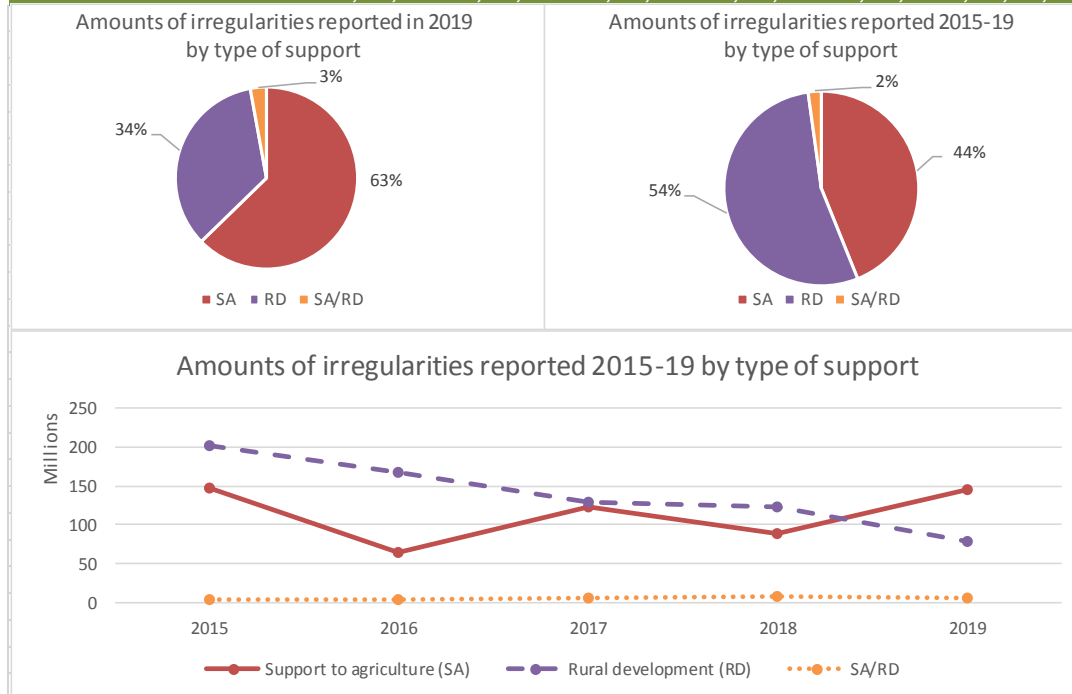
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<sup>48</sup> In this report, whenever financial amounts are mentioned with reference to reported cases, they refer to the financial amount of the irregularity and not of the overall related expenditure.

<sup>49</sup> Furthermore, there were just 28 cases over EUR 3 million accounting for 23% of the financial amounts.

Table NR5: Financial amounts involved in reported irregularities by type of support - 2015-19 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2015	2016	2017	2018	2019	EUR
Support to agriculture (SA)	146,574,641	65,480,767	123,795,097	89,769,676	144,648,606	570,268,787
Rural development (RD)	201,906,815	166,991,667	129,444,635	122,369,288	79,439,660	700,152,065
SA/RD	4,252,726	4,663,887	5,458,094	7,358,963	6,587,894	28,321,564
Unclear	868,434	192,720	48,514	0	27,507	1,137,175
<b>TOTAL EU28</b>	<b>353,602,616</b>	<b>237,329,041</b>	<b>258,746,340</b>	<b>219,497,927</b>	<b>230,703,667</b>	<b>1,299,879,591</b>



**In 2019, the overall financial amounts were relatively stable, but this was only on the surface.** In 2019, the financial amounts involved in irregularities slightly increased. However, this was the outcome of significant shifts in opposite directions of RD and SA irregular financial amounts. As a result, for the first time during the past five years, the financial amounts involved in SA irregularities were higher than the financial amounts involved in RD irregularities (63% of the total).

**In 2019, RD irregular financial amounts dropped by 35%, much more than the number of related detections, which decreased by 4%.** The RD irregular financial amounts have been following a steep downward trend since 2015, while the number of RD irregularities stabilised (see charts associated to Tables NR4 and NR5). As a result, during the 2017-2019 period, the AFA involved in these irregularities dropped by 37%. However, as mentioned, this can be overinfluenced by relatively few cases with very high financial amounts involved reported in the years 2015 and 2016. This is addressed below, when analysing the AFA ‘core’ trends.

**SA experienced the opposite: SA irregular financial amounts jumped by 61%, much more than the number of SA irregularities, which increased by 10%. This was not out-of-pattern.** During the period 2015-2019, SA financial amounts have been following a rather horizontal trend with strong fluctuations due to the occasional detection of cases, concerning intervention in agricultural markets, involving exceptionally high financial amounts.<sup>50</sup> In

<sup>50</sup> In 2015 (3), 2017 (2), 2018 (1), 2019 (3). In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million. For the purpose of the analysis for this Report, one of the cases reported in 2015 has been classified as SA, but not MM, following the methodology explained in Annex 12.



2018, one such case, accounting for about EUR 20 million, was detected, while in 2019, three cases with an average financial amount of EUR 20 million were reported. So the strong increase from 2018 to 2019 should not be overemphasised, as it does not seem to point to a broad structural change. Considering the overall period 2015-2019, the AFA involved in SA cases was higher than in RD cases (+67%). This was influenced by the higher frequency in SA of few irregularities with exceptionally high financial amounts involved. This is addressed below, when analysing the AFA 'core' trends.

**Despite these divergent patterns, RD remained more affected by irregularities than SA (as a whole).** While the irregular financial amounts involved in RD irregularities fell below those involved in SA cases in 2019, it needs to be taken into account that RD represented only about 24% of the total resources devoted to the CAP. As in past years, the weight of the financial amounts involved in irregularities on payments<sup>51</sup> is very different between the two types of support, as it is 0.1% for SA and 1.2% for RD (0.5% on the overall 2019 CAP expenditure - see also Section 3.3.2, about FDR and IDR). This is consistent with the findings of the ECA referring to 2017, according to which payments made on an entitlement basis (including direct aid to farmers, which is the biggest part of SA) are not affected by a material level of error. However, concerning SA, it should be added that the decoupled approach - linking the disbursement of subsidies to the verifiable availability of eligible land parcels and to the eligibility of the applicant – may have made typical methods (falsification of supporting documents, claims for ineligible parcels, claims from ineligible claimants) less relevant, but wrongdoers can resort to other malpractices (i.e. extortion, threats).

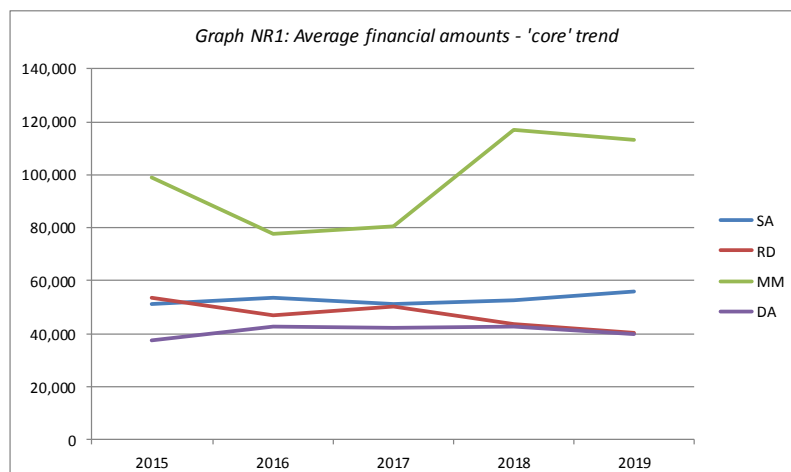
**The AFA of the reported irregularities can be taken as an indicator of the detection capacity. The analysis of 'core' trends can provide useful insights.** Targeting the limited resources that are available for detection, investigation and (as relevant) prosecution on cases with a higher financial impact can be beneficial in terms of efficiency, recovery and deterrence. Therefore, an increase in AFA of detected irregularities may point to better targeting of controls and viceversa. However, trends can be overly influenced by a small number of irregularities with unusually high financial amounts, and during the 2015-2019 period this was particularly the case for SA.<sup>52</sup> This had an obvious impact also on the trends related to AFAs. In an attempt to isolate the 'core' trends, Graph NR1 shows the AFAs for SA and RD in general, and also those specifically for MM and DA during the past five years, when the first and the last percentiles are excluded from the analysis<sup>53</sup>.

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<sup>51</sup> For example, for RD this is calculated as (financial amounts of irregularities in RD)/(payments related to all RD projects during the same period of reference).

<sup>52</sup> For example, if reference is made to irregularities with a financial amount exceeding EUR 10 million, during the period 2015-2019, there were between one and three such cases each year (with the exception of 2016) impacting on SA. There was only one case that impacted on RD with financial amounts exceeding EUR 10 million (in 2018).

<sup>53</sup> Only cases with financial amounts involved greater than EUR 10,000 are considered (about reporting of cases below the reporting threshold, see first part of this section). The remaining cases reported in 2015-2019 were split by category (SA, RD, MM, DA) and then sorted by financial amount involved in the irregularity. Then, separately for each category, the largest (1%) and the smallest (1%) of these cases were excluded.



**The 'core' AFA of MM seems to have shifted to a new higher level, with the contribution of detections by EU bodies. The 'core' AFA of RD has embarked on a clear downward trend. This may point to the need for better targeting controls in RD.** Graph NR1 shows that irregularities including a market measure component recorded the highest 'core' AFA, which significantly increased in 2018 and lingered at this new higher level in 2019. In the 2016 PIF Report, the Commission recommended to the Member States to review their fraud risk assessments in relation to the market support measures. While prevention issues or increased threat from wrongdoers cannot be excluded, this rise of the MM 'core' AFA might be due to better detection activities in the Member States, following better risk assessments. However, most of the increase in the MM 'core' AFA from 2017 to 2018 was due to *'irregularities detected and reported by an EU-body'*.<sup>54</sup> Net of this type of detections, the increase in MM 'core' AFA would have been less than 8%, instead of 45%. Only a few detections were explicitly based on risk analysis. It must also be considered that in the MM domain a significant share of detections follow scrutiny checks – such as scrutiny based on Reg. 4045/1989 or its successor Reg. 485/2008 - which refer to the analysis of risk (see Section 3.3.4.2). However, net of these checks, the raise of the MM 'core' AFA would have been even higher, so they cannot be considered as a contributing factor to the increase experienced in 2018. The situation is less clear when comparing 2017 and 2019. Scrutiny checks based on Reg. 4045/1989 contributed to the increase in the 'core' AFA of MM (net of these checks the increase would be 33%, instead of 41%). However, when considering also scrutiny checks based on Reg. 485/2008 together with those based on Reg. 4045/1989, the finding is reversed (net of these checks, the increase would be 44% instead of 41%). *'Irregularities detected and reported by an EU-body'* are an important contributing factor also in the comparison between 2017 and 2019 (net of these checks the increase would be 35% instead of 41%). The 'core' AFA of SA irregularities followed a rather stable trend, with a slight tendency to increase over time. The 'core' AFA of RD cases fluctuated around that of the SA cases until 2017, but then it noticeably decreased for two consecutive years. This brought SA 'core' AFA to be about 40% higher than RD 'core' AFA. During the period 2015-2018, the lowest 'core' AFA has always been the one related to irregularities with a DA component, but in 2019 RD 'core' AFA joined at the bottom.

### 3.2.2. Irregularities reported as fraudulent

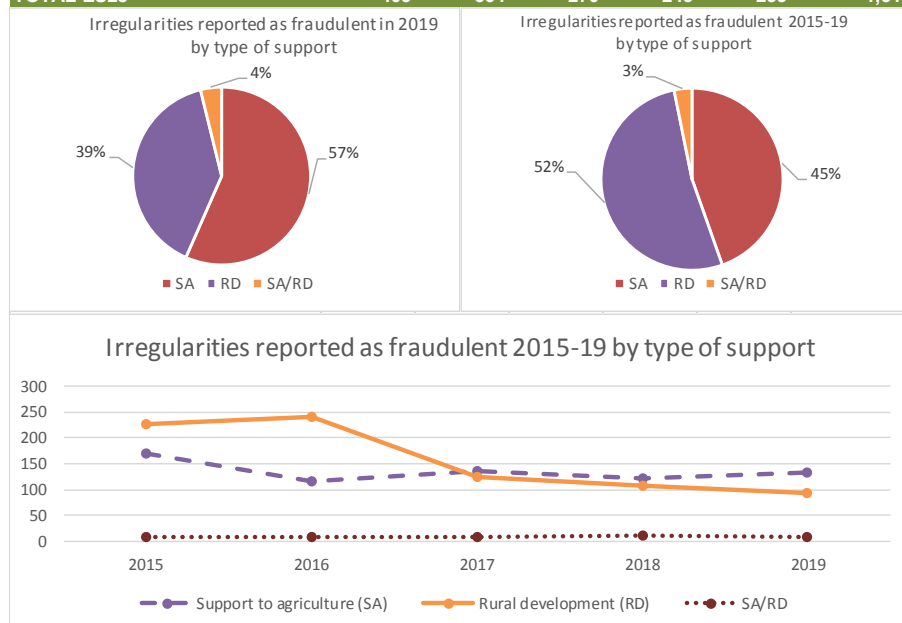
**During the 2015-2019 period, the number of irregularities reported as fraudulent followed a downward trend, mainly pushed by the strong decrease of RD cases, while SA**

<sup>54</sup> Seven of the irregularities considered for the calculation of MM 'core' AFA for 2018, accounting for nearly EUR 11 million.

**irregularities followed a flat trend.** For the period 2015-2019, Table NR6 provides an overview of the number of irregularities reported as fraudulent by the Member States in relation to the type of support concerned. After a significant decrease in 2017, the number of fraudulent irregularities stabilised somewhat, but continued decreasing (-10% in 2018 and -3% in 2019). However, this was the result of a decrease in RD fraudulent irregularities (-15%) and an increase in SA ones (+8%). A similar trend can be observed as regards non-fraudulent irregularities (see Section 3.2.3).

Table NR6: Number of irregularities reported as fraudulent by type of support - 2015-19 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2015	2016	2017	2018	2019	N
Support to agriculture (SA)	169	115	136	123	133	676
Rural development (RD)	226	240	124	109	93	792
SA/RD	10	9	9	11	9	48
Unclear	0	0	1	0	0	1
<b>TOTAL EU28</b>	<b>405</b>	<b>364</b>	<b>270</b>	<b>243</b>	<b>235</b>	<b>1,517</b>



**Since 2017, the number of irregularities reported as fraudulent in relation to RD has fallen below the number of those reported for SA and the gap has been slowly increasing.** As a result, over the period 2015-2019, the number of RD irregularities reported as fraudulent was still higher than the number of SA ones, but the difference was just seven percentage points (52% - for RD - versus 45% - for SA - of the total number of irregularities reported as fraudulent). During the period 2015-2019, 48 cases concerned both RD and SA. In most of these 48 cases, the violations concerning RD were combined with violations concerning direct payments to farmers.

**The decrease in the number of RD fraudulent irregularities is due to a decline in the number of cases related to PP 2007-2013, which was to be expected, not compensated by the (slow) start of cases related to PP 2014-2020, which should be closely monitored to ensure this is not due to less focus on fraud detection.** The above reported trends for RD are the result of the effect of two programming periods (PP): PP 2007-2013, which closed in 2015, and PP 2014-2020 (under implementation). Tables NR7a and NR7b disentangle these two effects and compare the period 2015-2019 with the period 2008-2012, when there was a similar situation, with the overlapping of detections related to PP 2000-2006 (being closed) and to PP 2007-2013 (at the time, under implementation). Table NR7a confirms that, during

the period 2015-2019, the decline in the number of RD fraudulent irregularities was due to the strong decrease of the detections concerning PP 2007-2013, which, in any case, were much more frequent than the detections concerning PP 2000-2006 during the period 2008-2012. However, Table NR7a also suggests that the management and control systems for PP 2014-2020 have been detecting much fewer fraudulent irregularities than those for PP 2007-2013 during the first years of implementations (2008-2012) of this programming period.

Table NR 7a

Comparison of the period 2015-2019 with period 2008-2012	Number of irregularities reported as fraudulent - Rural development										
	2008-2012					2015-2019					Total
	2008	2009	2010	2011	2012	2015	2016	2017	2018	2019	Total
PP 2000-2006	26	24	39	4	4						97
PP 2007-2013	11	31	55	51	52	221	212	95	77	58	663
PP 2014-2020						3	27	29	32	35	126

Table NR 7b

Comparison of the period 2015-2019 with period 2008-2012	Financial amounts involved in irregularities reported as fraudulent - Rural development										
	2008-2012					2015-2019					Total
	2008	2009	2010	2011	2012	2015	2016	2017	2018	2019	Total
PP 2000-2006	4,392,780	780,511	4,005,990	80,557	230,482						9,490,320
PP 2007-2013	288,418	1,131,672	3,782,474	4,960,746	7,059,562	29,759,461	32,382,741	13,221,237	16,956,870	7,385,048	99,705,357
PP 2014-2020						88,607	8,823,637	3,942,750	2,935,504	4,210,725	20,001,223

**The detection of fraudulent irregularities was concentrated in few Member States.** In 2019, the irregularities notified by the top five Member States in terms of cases reported (Romania, Italy, Spain, Portugal and Czechia) represented about 80% of the total number of irregularities reported as fraudulent (75% of financial amounts). At the beginning of the period under consideration, the top five Member States in 2015 detected the same percentage of irregularities, representing however just 57% of the financial amounts. Instead, this concentration was higher in 2018, when the top five Member States accounted for 85% of detections and 95% of financial amounts. From 2018 to 2019, the most significant changes in the number of irregularities reported as fraudulent were recorded in Romania and Poland (decrease), Portugal and Czechia (increase). A deeper analysis of concentration was included in the 2018 PIF Report.<sup>55</sup> That analysis found that the concentration of detections went beyond what could be expected on the basis of the distribution of relevant payments. This could be due to many different factors, including different underlying levels of irregularities and fraud, a different quality of the prevention or detection activities or different practices concerning the stage of the procedure when potentially fraudulent irregularities were reported. The concentration of detections was more accentuated for fraudulent irregularities, suggesting that different approaches to the use of criminal law to protect the EU budget or reporting practices concerning suspected fraud could be an additional and significant factor pushing for further dishomogeneity among Member States.

**In 2019, the overall financial amounts dropped by 62%. This was due to a continued downward trend for RD and a significant downswing for SA, due to the absence of 'exceptional' irregularities.** From the peak recorded in 2016, the financial amounts related to RD decreased by -72% (even more than the number of cases, which fell by -61%). The trend of the financial amounts related to SA was heavily influenced by the fact that a case worth between EUR 20 and 30 mn was detected in 2015 (France), 2017 (Poland) and 2018 (Poland). These 'exceptional' irregularities all affected market measures. In 2019, no such cases were reported and the financial amounts involved in SA fraudulent irregularities fell back to the level recorded in 2016. Excluding these exceptional irregularities, the irregular financial amounts detected in relation to SA were more stable. In 2019, they halved in comparison to 2018, but they were in line with the years 2016-2017.

<sup>55</sup> Section 3.4.3 of 'Statistical evaluation of irregularities reported for 2018: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure', SWD(2019)365 final.

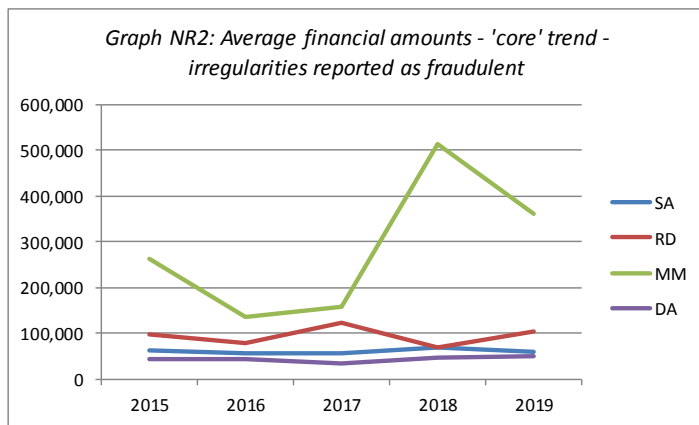
During the period 2015-2019, financial amounts involved in SA irregularities were higher than those related to RD cases, but in relation to payments made, RD was still much more affected by fraud. Table NR8 provides information about the financial amounts involved in the cases considered in Table NR6. Taking into account the whole 2015-2019 period, financial amounts involved in SA cases were predominant, as they accounted for 53% of the total financial amounts involved in fraudulent irregularities. However, the share of the RD on the total (45%) was well above the share of the resources allocated to RD on the total of the CAP resources over the same period.

Table NR8: Financial amounts involved in irregularities reported as fraudulent by type of support - 2015-19 for the CAP

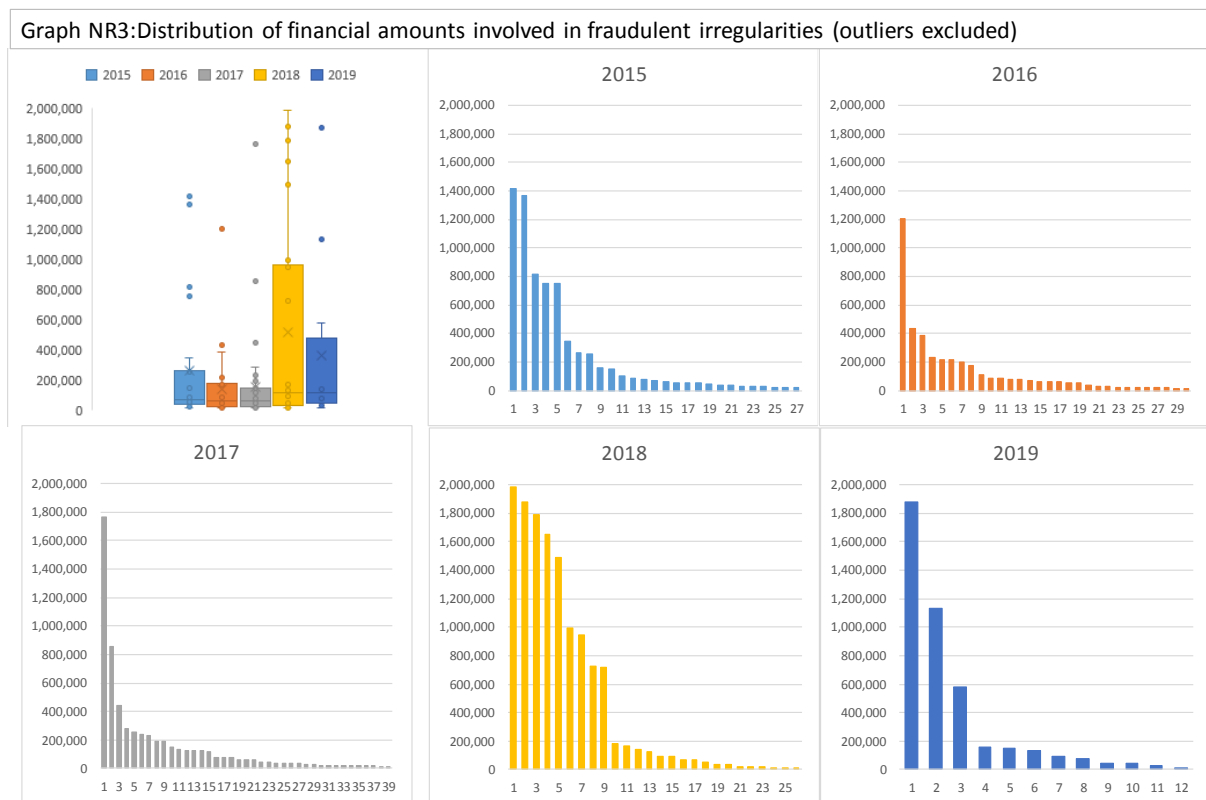
Type of support	REPORTING YEAR					TOTAL PERIOD
	2015	2016	2017	2018	2019	
	EUR	EUR	EUR	EUR	EUR	EUR
Support to agriculture (SA)	37,678,180	10,046,941	39,674,152	42,897,703	12,427,599	142,724,575
Rural development (RD)	30,906,135	41,218,839	17,163,987	19,892,374	11,595,773	120,777,108
SA/RD	1,846,655	1,754,516	395,991	1,231,950	600,216	5,829,328
Unclear	0	0	12,492	0	0	12,492
<b>TOTAL EU28</b>	<b>70,430,970</b>	<b>53,020,296</b>	<b>57,246,622</b>	<b>64,022,027</b>	<b>24,623,588</b>	<b>269,343,503</b>

During the period 2015-2019, the ‘core’ AFA for RD has been fluctuating, while the ‘core’ AFAs for SA and DA have been following a more stable path. The ‘core’ AFA for MM is much higher, following also a significant upward shift in 2018. Following the approach introduced in Section 3.2.1., the ‘core’ trend of AFA for irregularities reported as fraudulent has been examined. Starting from the irregularities that have been selected in relation to Graph NR1, Graph NR2 shows this ‘core’ trend for the SA, RD, MM and DA irregularities during the past five years. The ‘core’ AFAs for SA irregularities and for irregularities with a DA component were broadly stable and lower than for the other categories. The ‘core’ AFA for RD irregularities has been fluctuating around EUR 100,000. In 2018, it fell to the level of SA cases, then bounced back. The ‘core’ AFA of irregularities with an MM component - which is much higher than those for the other categories - grew in 2017 and, in particular, in 2018. In 2019, it decreased, but it did not revert back to the levels of 2015-2017.



The rise of the 'core' AFA for MM in 2018 was due to a broader basis of irregularities with high financial amounts involved. In 2019, the 'core' AFA for MM remained high, in particular because less cases with low financial amounts were reported. Graph NR3 helps exploring further the distributions of the financial amounts involved in MM irregularities reported in the years from 2015 to 2019, in order to better understand the rise of the 'core' AFA for MM. As shown by the Box plot in Graph NR3, in 2018 more irregularities with financial amounts involved between EUR 1.5 million and EUR 2 million were reported. However, this was not the only reason contributing to the increase of 'core AFA for MM in 2018; the Box plot also shows that the medians and, in particular, the upper quartiles for 2018 and 2019 were higher than the same indicators for 2015, 2016 and 2017. The column charts for the different years confirms that in 2018 and 2019, on the one hand, there was a tendency to report more cases with high and medium-high financial amounts (going beyond one or two high cases) and, on the other hand, there were less irregularities with relatively low financial amounts involved, especially in 2019.

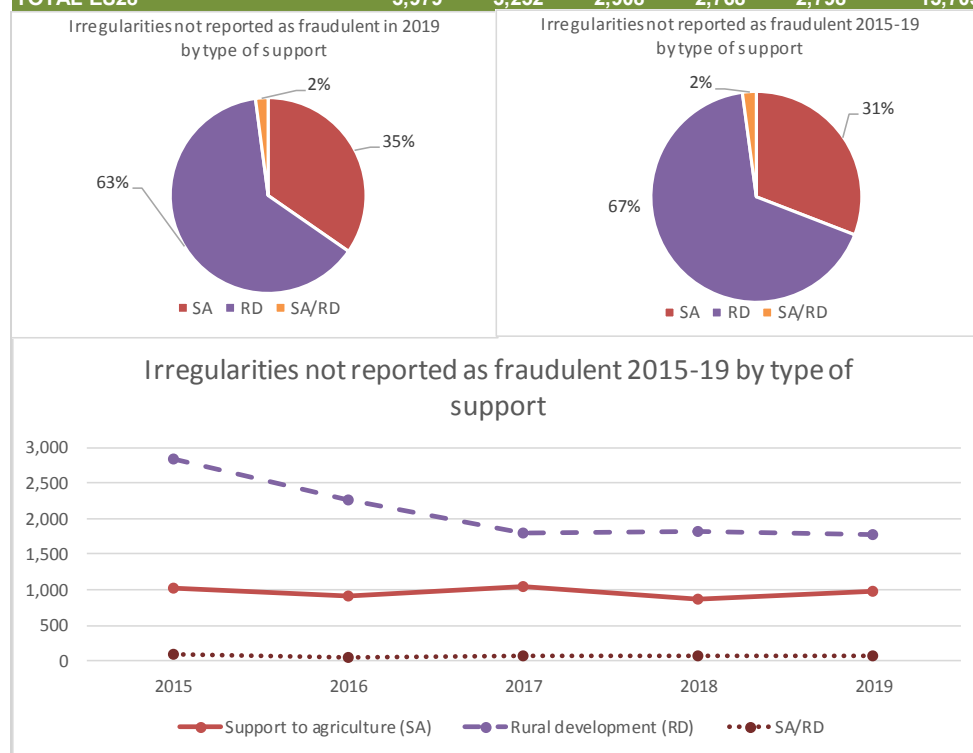


### 3.2.3. Irregularities not reported as fraudulent

Since 2015, RD non-fraudulent irregularities followed a downward trend, in particular in terms of financial amounts involved. The trend of SA non-fraudulent irregularities was flat, but subject to large fluctuations in terms of financial amounts, due to a few exceptional cases. The number of RD irregularities not reported as fraudulent has been constantly increasing until 2015, in line with implementation of the programmes, while that related to SA remained stable or recorded minor variations. Since then, RD non-fraudulent irregularities significantly decreased for two years and then stabilised, while SA non-fraudulent irregularities continued to follow a flat trend (see Table NR9). Also the irregular financial amounts linked to RD peaked in 2015, then started a downward trend, which continued in 2018 and accelerated in 2019 (as highlighted in Table NR10).<sup>56</sup> The irregular financial amounts linked to SA fluctuated around an annual average of about EUR 85 million, with significant annual variations, before peaking at more than EUR 130 million in 2019. This was mainly due to the fact that cases involving 'exceptional' financial amounts were reported in 2015 (one case each in France and Greece), 2017 (one case in Romania) and 2019 (three cases in Poland), whereas none were detected in 2016 and 2018.<sup>57</sup>

Table NR9: Number of irregularities not reported as fraudulent by type of support - 2015-19 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2015	2016	2017	2018	2019	N
Support to agriculture (SA)	1,031	914	1,049	877	969	4,840
Rural development (RD)	2,846	2,273	1,791	1,827	1,769	10,506
SA/RD	94	52	66	64	58	334
Unclear	8	13	2	0	2	25
<b>TOTAL EU28</b>	<b>3,979</b>	<b>3,252</b>	<b>2,908</b>	<b>2,768</b>	<b>2,798</b>	<b>15,705</b>

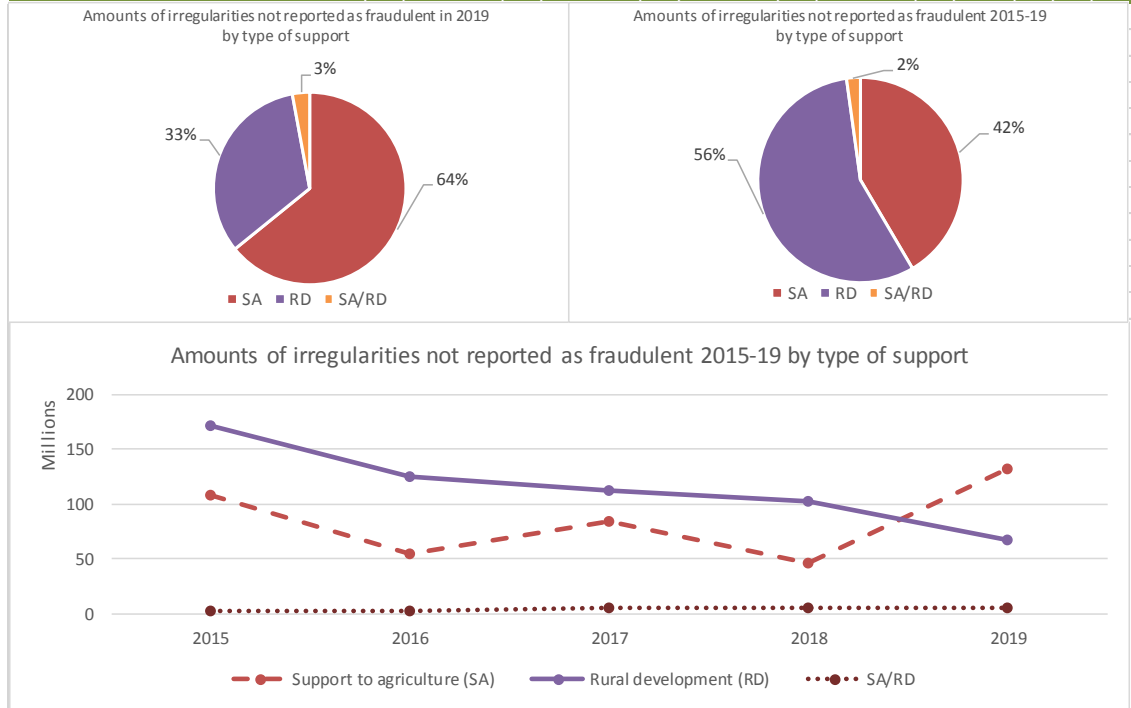


<sup>56</sup> This downward trend was slowed down in 2018 by an irregularity accounting for about EUR 15 million, detected in Italy.

<sup>57</sup> In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million.

Table NR10: Financial amounts involved in irregularities not reported as fraudulent by type of support - 2015-19 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2015	2016	2017	2018	2019	
	EUR	EUR	EUR	EUR	EUR	EUR
Support to agriculture (SA)	108,896,461	55,433,825	84,120,945	46,871,974	132,221,007	427,544,212
Rural development (RD)	171,000,680	125,772,828	112,280,648	102,476,914	67,843,887	579,374,957
SA/RD unclear	2,406,071	2,909,370	5,062,103	6,127,013	5,987,679	22,492,236
unclear	868,434	192,720	36,022	0	27,507	1,124,683
<b>TOTAL EU28</b>	<b>283,171,646</b>	<b>184,308,743</b>	<b>201,499,718</b>	<b>155,475,901</b>	<b>206,080,080</b>	<b>1,030,536,088</b>



The decrease in the number of RD non-fraudulent irregularities was due to a decline in the number of cases related to PP 2007-2013, which was to be expected, not compensated by the start of cases related to PP 2014-2020, which however was in line with the situation at the start of the previous programming period. The above reported trends for RD are the result of the effect of overlapping reporting for two programming periods (PP): PP 2007-2013, which closed in 2015, and PP 2014-2020 (under implementation). Tables NR11a and NR11b disentangle these two effects and compare the period 2015-2019 with the period 2008-2012, when there was a similar situation, with the overlapping of detections related to PP 2000-2006 (being closed) and to PP 2007-2013 (at the time, under implementation). Table NR11a confirms that, during the period 2015-2019, the decline in the number of RD non-fraudulent irregularities was due to the strong decrease of the detections concerning PP 2007-2013, which, in any case, were much more frequent than the detections concerning PP 2000-2006 during 2008-2012. On the other hand, the number of detections related to PP 2014-2020 has been rising, similar to what happened during 2008-2012 for PP 2007-2013.

Table NR 11a

Comparison of the period 2015-2019 with period 2008-2012	Number of irregularities not reported as fraudulent - Rural development											
	2008	2009	2010	2011	2012	Total 2008-2012	2015	2016	2017	2018	2019	Total 2015-2019
PP 2000-2006	290	270	209	120	90	979						
PP 2007-2013	76	157	306	587	1,027	2,153	2,592	1,715	1,514	1,301	910	8,032
PP 2014-2020							184	508	268	516	843	2,319

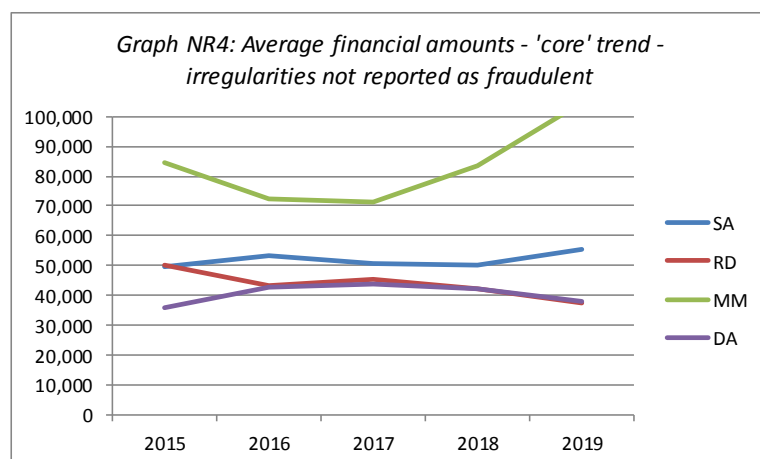


Table NR 11b

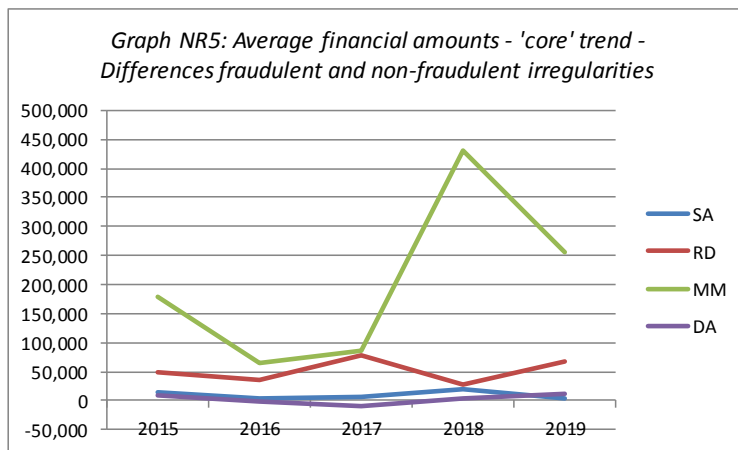
Comparison of the period 2015-2019 with period 2008-2012	Financial amounts involved in irregularities not reported as fraudulent - Rural development											
	2008	2009	2010	2011	2012	Total 2008-2012	2015	2016	2017	2018	2019	Total 2015-2019
PP 2000-2006	13,394,034	11,581,852	11,610,274	5,228,557	2,633,052	44,447,769						
PP 2007-2013	1,918,680	6,802,515	9,896,234	33,032,921	41,023,978	92,674,328	146,559,397	97,425,073	99,830,418	87,343,279	41,246,400	472,404,567
PP 2014-2020							21,438,641	23,480,698	6,886,169	14,943,991	26,045,081	92,794,580

However, during the 2015-2019 period, RD has still been affected by many more non-fraudulent irregularities than SA. The difference in terms of total financial amount was narrower. In terms of the number of non-fraudulent irregularities (Table NR10), RD has regularly and significantly exceeded SA throughout the entire 2015-2019 period, with the result that the number of irregularities linked to RD have been more than double those affecting SA. RD non-fraudulent irregularities also exceeded the SA ones in terms of financial amounts involved, but only by 35%.

Whereas the 'core' AFA of MM has been growing fast, the 'core' AFA of RD was lower and decreasing. As already mentioned, this may point to the need for better targeting controls in RD. Following the approach introduced in Section 3.2.1., the 'core' trend of AFA for non-fraudulent irregularities has been examined. Starting from the irregularities that have been selected in relation to Graph NR1, Graph NR4 shows this 'core' trend for the SA, RD, MM and DA irregularities during the past five years. The highest 'core' AFA was related to irregularities with a MM component, which has been significantly increasing since 2017. The 'core' AFA for RD cases decreased by 25% since 2015 and has been basically aligned to the 'core' AFA for DA, since 2016. The 'core' AFA for SA was higher than both of RD and DA, pushed by the financial amounts involved in the MM cases.



For MM and RD, the 'core' AFA of non-fraudulent irregularities is lower than the 'core' AFA of fraudulent ones. The difference between the 'core' AFAs of fraudulent and non-fraudulent irregularities was not significant for SA and DA cases (their curves in Graph NR5 approach the x-axis). For RD irregularities, however, fraudulent cases had a higher 'core' AFA than non-fraudulent ones, with the difference hovering around EUR 50,000. The 'core' AFA of fraudulent irregularities with a MM component was significantly higher than that of the corresponding non-fraudulent irregularities. The difference was minimal for the years 2016-2017 (when it was similar to the RD difference) and experienced a jump in 2018.



### 3.3. Specific analysis

#### 3.3.1. *Modus operandi*

##### 3.3.1.1. *Support to agriculture*

Table NR12 provides an overview of the most frequent categories (or combinations of categories) of irregularities linked to cases reported as fraudulent in relation to SA in 2019 and the financial amounts involved. It also presents how these most common categories (or combinations of categories) featured in the period 2015-2019.<sup>58</sup> In the following paragraphs, the adjective 'pure' is used to refer to instances where a specific category of irregularity is not combined with other categories.

**Fraudsters mainly relied on the 'pure' falsification of the documentary proof or of the request for aid.** The most recurrent *modi operandi* were related to the 'pure' categories '*documentary proof*' or to the '*request*'. Each category is then articulated in different types of violations (see Annex 13). With reference to these two categories, the most recurrent types concerned '*false or falsified documents*' or '*false or falsified request for aid*', both in 2019 and in the overall period 2015-2019.<sup>59</sup> Violations concerning the categories '*documentary proof*' or '*request*' tend also to be combined with each other or with the category '(non)-action' in the same irregularity (see Table NR12).

**During the period 2015-2019, there were only a few cases of 'pure' '(non)-action' reported as fraudulent, but they recorded the highest average financial amount.** Despite the relatively low number of detections (27), the highest financial amounts were associated to this 'pure' category.

**Irregularities concerning 'pure' 'Product, species and/or land' were also frequently detected.** More specifically, in the overall period 2015-2019, most of these infringements concerned the type '*overdeclaration and/or declaration of fictitious product, species and/or land*'.<sup>60</sup>

<sup>58</sup> For the full description of the categories of irregularities and the related types of violations, please see Annex 13.

<sup>59</sup> Most of the cases of '*false or falsified documents*' were detected in Romania, while Italy was the Member State with most detections of '*false or falsified request for aid*' (followed by Romania, considering the whole period 2015-2019).

<sup>60</sup> The majority of these cases pertaining to the type '*overdeclaration and/or declaration of fictitious product, species and/or land*' were detected in Poland and, to a lesser extent, in Romania.

While there were no such cases in 2019, during the whole period 2015-2019, 51 irregularities were reported as pertaining to ‘pure’ *‘Ethics and integrity’*. All of these violations were communicated by Poland and were not reported under the types *‘conflict of interest’*, *‘bribery’* or *‘corruption’*, but as *‘other irregularities concerning ethics and integrity’*. Most of these violations concerned the creation of artificial conditions for receiving financial support. Other Member States may have reported this type of infringement under other categories of irregularities.

The highest average financial amount (nearly EUR 2 million) was recorded in cases of conflict of interest combined with other violations. OLAF uncovered a complex fraudulent scheme. In 2019, Czechia reported two irregularities related to corruption, in combination with public procurement infringements (conflict of interest) and non-implementation of the action, with an average financial amount of nearly EUR 2 million. During the period 2015-2019, conflict of interest was combined with violations concerning the ‘beneficiary’ and ‘(non-)action’ in five irregularities detected in Bulgaria. Also for these irregularities the average financial amount was very high, again approaching EUR 2 million. In another case detected in Bulgaria, conflict of interest was combined with violations concerning the ‘beneficiary’ and ‘accounts & records’. All of these eight irregularities were related to the market measure ‘Promotion’ (see Section 3.3.3) and were detected in relation to OLAF investigations. OLAF uncovered a complex fraudulent scheme, mainly based on inflation of prices, kickback payments, money laundering. Furthermore, the public procurement procedures were flawed through a solid network of companies based in different countries. In some cases, the manipulation was possible also due to the collusion of the beneficiaries.

Table NR12: Categories of irregularities reported as fraudulent in relation to support to agriculture

Code	Category of irregularity	Irregularities reported as fraudulent in 2019		Irregularities reported as fraudulent 2015-19	
		N	EUR	N	EUR
T14	Documentary proof	84	4,731,156	258	12,041,269
T11	Request	27	1,396,698	151	10,520,391
T15	Product, species and/or land	11	756,020	80	8,157,393
T12	Beneficiary	3	1,142,929	9	4,100,611
T16	(Non-)action	3	115,820	27	25,073,841
T16   T19   T40	(Non-)action/Ethics & Integrity/Public Procurement	2	3,953,696	2	3,953,696
T14   T16	Documentary proof/(Non-)action	1	150,381	4	556,487
T11   T16	Request/(Non-)action	1	97,100	9	595,553
T19	Ethics & Integrity	0	0	51	31,270,474
T11   T13	Request/Accounts & records	0	0	14	2,554,924
T11   T14	Request/Documentary proof	0	0	13	888,965
T13	Accounts & records	0	0	12	1,744,587
T11   T14   T16	Request/Documentary proof/(Non-)action	0	0	7	971,956
T12   T16   T19	Beneficiary/(Non-)action/Ethics & Integrity	0	0	5	9,374,623
T90	Other	1	83,801	12	2,395,534
	ALL OTHERS	0	0	22	28,524,272
<b>TOTAL EU28</b>		<b>133</b>	<b>12,427,601</b>	<b>676</b>	<b>142,724,576</b>

Table NR13 provides an overview of the most frequent categories (or combinations of categories) of irregularities linked to cases not reported as fraudulent in relation to SA in 2019 and the financial amounts involved. It also presents how these most recurrent categories (or combinations of categories) featured in the period 2015-2019.

Violations concerning the ‘request’ were the most frequent and they were often related to falsification, which would not be expected for non-fraudulent irregularities. Similar findings apply to the category ‘documentary proof’. When looking at these irregularities during the period 2015-2019, violations concerning ‘pure’ *‘request’* were by far the most recurrent category. More specifically, during 2015-2019, the most recurrent type of violation

was by far *'false or falsified request for aid'*<sup>61</sup>, followed by *'incorrect or incomplete request for aid'*<sup>62</sup> and *'Product, species, project and/or activity not eligible for aid'*. Violations concerning the other category *'documentary proof'* were also quite frequent and, considering the overall period 2015-2019, often related to the type of violation *'false or falsified documents'* (about 125 cases in 2015-2019<sup>63</sup>). This reporting of cases of *'false or falsified documents'* as non-fraudulent mostly happened in the past; in 2019 there was only one such case.<sup>64</sup> For most of the SA irregularities not reported as fraudulent where the type of violation was *'false or falsified documents'* or *'false or falsified request for aid'* there were no ongoing penal proceedings.<sup>65</sup>

**The highest irregular financial amounts were due to infringements concerning the '(non)-action'**. However, 2019 was a peculiar year for this category of violation (not combined with other categories of irregularity), which nearly equalled *'request'*, in terms of the number of detections. Nearly 50% of the irregular financial amounts reported during the period 2015-2019 for *'(non)-action'* were reported in 2019, due to two irregularities totalling about EUR 45 million. In this area, the three most reported types pertained to the action itself (not implemented or not completed)<sup>66</sup>, and *'refusal to repay not spent or unduly paid amounts'*<sup>67</sup>.

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<sup>61</sup> Most of these cases were reported by Italy. Italy might have not reported these irregularities as fraudulent yet, because of the need to reach a specific stage in the investigation or criminal procedure. However, in the irregularities it was not mentioned that penal proceedings were ongoing. Most of these irregularities were reported in 2017-2018.

<sup>62</sup> Most of these cases were reported by Spain.

<sup>63</sup> Most of these cases were reported by Italy. Italy might have not reported these irregularities as fraudulent yet, because of the need to reach a specific stage in the investigation or criminal procedure. However, it was not mentioned that penal proceedings were ongoing. Most of these irregularities were reported in 2015.

<sup>64</sup> The most recurrent type of irregularity within the 'pure' *'Documentary proof'* category was the combination *'Documents incomplete'* with *'Document incorrect'*, in 2019, and *'Documents missing and/or not provided'* during 2015-2019.

<sup>65</sup> However, for a significant share of *'false or falsified request for aid'* there were ongoing judicial proceedings. These irregularities were reported by Italy.

<sup>66</sup> Most of these cases were detected by Italy, Portugal and Romania.

<sup>67</sup> Most of these cases were reported by Spain.

Table NR13: Categories of irregularities not reported as fraudulent in relation to support to agriculture

Code	Category of irregularity	Irregularities not reported as fraudulent in 2019		Irregularities not reported as fraudulent 2015-19	
		N	EUR	N	EUR
T11	Request	217	9,989,713	1,259	69,297,561
T16	(Non-)action	200	70,302,563	836	145,684,011
T15	Product/species and/or land	116	3,487,154	801	26,225,361
T12	Beneficiary	75	26,973,308	337	37,364,297
T19	Ethics & Integrity	68	1,371,723	148	3,516,142
T14	Documentary proof	66	5,693,000	560	35,971,275
T12   T16	Beneficiary/(Non-action)	15	316,662	60	2,780,701
T13	Accounts & records	6	293,011	80	3,435,541
T11   T14	Request/Documentary proof	6	185,749	73	4,371,947
T14   T16	Documentary proof/(Non-)action	5	1,223,546	12	1,623,796
T11   T15	Request/Product/species and/or land	5	188,315	73	12,634,281
T11   T13   T14	Request/Accounts & records / Documentary proof	4	678,057	15	1,294,675
T11   T13	Request/Accounts & records	4	161,462	15	2,407,442
T11   T16	Request/(Non-)action	4	129,547	28	1,880,133
T12   T14   T16	Beneficiary/Documentary proof/(Non-)action	3	1,577,674	23	3,977,643
T11   T12	Request/Beneficiary	2	497,914	8	704,842
T13   T14   T17	Accounts & records/Documentary proof/Movement	2	219,307	10	866,831
T11   T14   T15	Request/Documentary proof/Product/species and/or land	2	90,953	24	1,137,882
T12   T14	Beneficiary/Documentary proof	2	89,431	6	223,399
T11   T16   T40	Request/(Non-)action/Public procurement	1	398,854	1	398,854
T15   T16	Product/species and/or land	1	162,058	5	613,442
T12   T15	Beneficiary/Product/species and/or land	1	106,864	2	107,913
T11   T14   T16	Request/Documentary proof/(Non-)action	1	24,250	10	830,527
T13   T40	Accounts & records/Public procurement	1	16,984	1	16,984
T17	Movement	1	10,177	6	551,802
T90	Other	157	7,944,265	350	17,698,375
Null		4	88,466	43	8,750,158
ALL OTHER				54	43,178,399
<b>TOTAL EU28</b>		<b>969</b>	<b>132,221,007</b>	<b>4,840</b>	<b>427,544,214</b>

**Other prevalent categories of SA irregularities not reported as fraudulent were related to 'Product, species and/or land', 'Beneficiary' or 'Ethics and integrity'** (not combined with other categories of irregularity). For 'pure' *'Product, species and/or land'*, the majority of violations concerned *'Overdeclaration and/or declaration of fictitious product, species and/or land'*<sup>68</sup>. For 'pure' *'beneficiary'*, the most reported type of violation was *'Operator/beneficiary not having the required quality'*<sup>69</sup>. Infringements related to *'Ethics and integrity'* were less frequent than for the irregularities reported as fraudulent. Apart from one case of conflict of interest<sup>70</sup>, all of these violations were reported as *'other irregularities concerning ethics and integrity'*<sup>71</sup>.

### 3.3.1.2. Rural development

Table NR14 provides an overview of the most frequent categories of irregularities reported as fraudulent in RD in 2019 and the related financial amounts. It also presents how these most commonly reported categories have featured during the period 2015-2019.

**Similar to SA, fraudsters mainly relied on 'pure' falsification of the documentary proof or, to a lesser extent, of the requests for aid.** The 'pure' category *'documentary proof'* ranked

<sup>68</sup> Most of these cases were reported by Romania. It is not known to what extent these violations concerned the declaration of fictitious items, which could be expected to be fraudulent.

<sup>69</sup> Most of these cases were detected by Lithuania.

<sup>70</sup> There was one additional case of conflict of interest in combination with other categories of violation. Both cases where conflict of interest was involved were related to MM.

<sup>71</sup> Most of these violations were reported by Spain (considering the period 2015-2019) and Poland (in 2019).

(by far) first, with *'false or falsified documents'* as the most reported type of violation. Also with reference to the 'pure' *'request'*, which was another frequent category, the false-related type of irregularity (*'false or falsified request of aid'*) was the most reported<sup>72</sup>.

**A significant number of detections and irregular financial amounts were related to 'pure' 'non-action'.** Within this category during 2015-2019, the most reported type of violation was *'action not implemented'*<sup>73</sup>.

**The 'pure' category 'Ethics and integrity' ranked high, with 133 irregularities, but none of these irregularities were reported in 2019 and very few in 2018.** Only one irregularity was reported as corruption<sup>74</sup>. Similarly to SA cases, most of these violations were communicated by Poland and were not reported under the types *'conflict of interest'*, *'bribery'* or *'corruption'*, but as *'other irregularities concerning ethics and integrity'*. Most of these violations concerned the creation of artificial conditions for receiving financial support. Other Member States may have reported this type of infringement under other categories of irregularity, such as the one referring to the beneficiary (for example, using the the type of violation *'Operator/beneficiary not having the required quality'* or *'Other'*).

Table NR14: Categories of irregularities reported as fraudulent in relation to rural development

Code	Category of irregularity	Irregularities reported as fraudulent in 2019		Irregularities reported as fraudulent 2015-19	
		N	EUR	N	EUR
T14	Documentary proof	48	4,539,064	229	20,109,303
T16	(Non-)action	10	775,264	83	11,940,497
T11	Request	7	111,662	69	10,661,392
T11   T40	Request/Public procurement	5	217,263	10	622,836
T12	Beneficiary	4	265,521	39	4,171,833
T15	Product/species and/or land	3	24,965	32	1,001,751
T14   T19	Documentary proof/Ethics & Integrity	2	488,941	6	860,214
T14   T16	Documentary proof/(Non-)action	2	391,957	13	2,252,232
T13	Accounts & records	2	99,697	14	1,019,656
T13   T14   T16	Accounts & records/Documentary proof/(Non-)action	1	594,045	2	730,390
T11   T14   T16	Request/Documentary proof/(Non-)action	1	137,915	9	960,179
T11   T14   T40	Request/Documentary proof/Public procurement	1	41,685	4	378,995
T40	Public procurement	1	33,991	6	1,669,754
T19	Ethics & Integrity	0	0	133	10,730,328
T11   T14	Request/Documentary proof	0	0	18	1,592,200
T12   T90	Beneficiary/Other	0	0	13	2,225,617
T12   T14   T16	Beneficiary/Documentary proof/(Non-)action	0	0	14	4,148,519
T90	Other	5	2,313,963	54	38,051,921
	Null	1	1,559,839	4	2,577,496
	ALL OTHER	0	0	40	5,071,995
<b>TOTAL</b>		<b>93</b>	<b>11,595,773</b>	<b>792</b>	<b>120,777,108</b>

Table NR15 provides an overview of the most frequent categories of **irregularities not reported as fraudulent** in RD in 2019 and the related financial amounts. It also presents how these most recurrent categories have featured during the period 2015-2019.

<sup>72</sup> The majority of these cases (*'false or falsified documents'* or *'false or falsified request of aid'*) were detected in Romania.

<sup>73</sup> The majority of these cases and irregular financial amounts were detected in Bulgaria.

<sup>74</sup> However, two irregularities were reported where conflict of interest was mentioned (as an *'Ethics and integrity'* issue) together with other violations concerning the documentary proof. In addition, nine cases of conflict of interest in public procurement processes were reported (they are reported under the category *'public procurement'* and not *'Ethics and integrity'*), always combined with *'False or falsified request for aid'* and, in two cases, also with *'Documents false and/or falsified'*

**The highest number of detections and irregular financial amounts were related to ‘pure’ ‘non-action’.** This included ‘*action not completed*’<sup>75</sup>, ‘*action not implemented*’<sup>76</sup>, or ‘*failure to respect deadlines*’<sup>77</sup> among the most reported types of violation.

**‘Pure’ violations concerning ‘documentary proof’ or the ‘beneficiary’ were also prevalent. However, they were also often combined with the category ‘(non-)action’ and with each other.**

During the period 2015-2019, ‘(non-)action’ was followed by ‘documentary proof’, which was mentioned in 13% of the non-fraudulent cases. ‘*Documents missing and/or not provided*’ was the most reported type of violation. During 2015-2019, a number of ‘documentary proof’ cases (34) concerned the ‘*false and/or falsified documents*’ type of violation, which would not be expected for non-fraudulent irregularities.<sup>78</sup> The same applies to the category ‘request’, where a number of cases (14) were related to the ‘*false or falsified request of aid*’ type of violation.<sup>79</sup>

Focusing on 2019, the second most reported category for non-fraudulent irregularities was ‘beneficiary’ (this was third for the entire period 2015-2019). In addition, the category ‘beneficiary’ had a higher tendency to combine with other violations, including ‘(non-)action’. There was also a significant number of irregularities (and irregular financial amounts) where the violation concerning ‘beneficiary’ was combined with the ‘other’ (not specified) category. When the category ‘beneficiary’ is not combined with other categories, ‘*Operator/beneficiary not having the required quality*’ is the most reported type of violation<sup>80</sup>. During 2015-2019, the category *Beneficiary* was more frequent among RD cases not reported as fraudulent than in SA (about 10%, if not considered in combination with other categories, or 16%, if considered also in combination).

**There were just a few reported cases of conflict of interest.** There was one ‘pure’ case of conflict of interest and three additional cases of conflict of interest in combination with other categories of violation (public procurement infringement and ‘(non-)action’). Apart from these cases, infringements related to ‘*Ethics and integrity*’ were reported as ‘*other irregularities concerning ethics and integrity*’. Most of these irregularities were reported by Spain. In addition, there were nine other cases of conflict of interest in the public procurement procedure.

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<sup>75</sup> The majority of these cases were detected in Portugal and Italy.

<sup>76</sup> The majority of these cases were detected in Bulgaria and Greece.

<sup>77</sup> The majority of these cases were detected in Portugal and Romania.

<sup>78</sup> There were additional cases where the violation ‘*false or falsified documents*’ was combined with other categories of violation. The same applies to the violation ‘*false or falsified request of aid*’. Overall, for most of the RD irregularities not reported as fraudulent where the types of violation ‘*false or falsified documents*’ or ‘*false or falsified request for aid*’ were mentioned, there were no ongoing penal proceedings.

<sup>79</sup> Italy reported many of these non-fraudulent cases where the type of violation refers to ‘*false or falsified request for aid*’ or ‘*false or falsified documents*’.

<sup>80</sup> Most of the cases were detected in Poland and Lithuania.

Code	Category of irregularity	Irregularities not reported as fraudulent in 2019		Irregularities not reported as fraudulent 2015-19	
		N	EUR	N	EUR
T16	(Non-)action	821	31,414,715	4,113	188,287,927
T12	Beneficiary	206	5,867,834	1,012	57,713,484
T14	Documentary proof	151	5,500,779	1,329	63,792,528
T11	Request	130	4,669,249	794	46,631,932
T15	Product, species and/or land	123	3,743,334	795	27,139,430
T12   T16	Beneficiary/(Non-)action	76	1,886,610	406	16,270,767
T19	Ethics & Integrity	44	1,123,722	233	25,370,780
T14   T16	Documentary proof/(Non-)action	44	1,002,689	160	11,339,225
T13	Accounts & records	20	1,773,964	150	6,560,748
T12   T14   T16	Beneficiary/Documentary proof/(Non-action)	16	447,654	75	4,302,078
T40	Public procurement	14	1,456,588	168	14,028,246
T12   T14	Beneficiary/Documentary proof	12	1,278,697	81	2,731,484
T18	Bankruptcy	8	924,840	87	12,579,268
T13   T16	Accounts & records/(Non-)action	5	201,443	63	2,150,871
T12   T90	Beneficiary/Other	0	0	150	17,959,973
T90	Other	40	4,170,210	563	55,271,544
	Null	31	757,982	85	2,355,703
	ALL OTHERS	28	1,623,579	242	24,888,967
<b>TOTAL</b>		<b>1,769</b>	<b>67,843,887</b>	<b>10,506</b>	<b>579,374,957</b>

### 3.3.2. Fraud and Irregularity Detection Rates by CAP components

As mentioned, via its two funds (EAGF and EAFRD) the CAP supports agriculture and rural development across Europe. The EAGF itself has two components with different aims: measures regulating or supporting agricultural markets and direct payments to farmers. Annex 12 provides a detailed explanation about the classification, for the purpose of this analysis, in these two categories of the cases reported by the Member States.

Table NR16 shows the FDR and IDR per type of policy measure.

Type of expenditure (1)	Irregularities detected and reported 2015-2019 / Payments 2015-2019		
	FDR	IDR	Total
Direct payments	0.01%	0.07%	0.08%
Intervention in agricultural markets	0.87%	1.85%	2.72%
Rural development	0.20%	0.98%	1.18%
<b>Total</b>	<b>0.10%</b>	<b>0.37%</b>	<b>0.46%</b>

(1) See Annex 13, for an analysis of the impact of 'mixed' or unclear case

The same case may cover several budget posts referring to different types of expenditure. In Annex 14, a detailed explanation of this issue and how it has been handled in estimating these FDR/IDR can be found.

As mentioned in Section 3.2.2, the financial amounts involved in irregularities reported as fraudulent concerning market measures were heavily influenced by a few exceptional cases.<sup>81</sup> Excluding these cases, the FDR for market measures would be 0.37% rather than 0.87% (still the highest in CAP). Similarly, excluding the few (five) 'exceptional' non-fraudulent irregularities, the IDR would be 1.18% rather than 1.85%.

### 3.3.3. Market measures – fraudulent and non-fraudulent irregularities

As shown in Table NR16, market measures feature high FDR and IDR. Table NR17 shows the number and financial amounts of irregularities reported as fraudulent in relation to market measures for the period 2015-2019, while Table NR18 shows the same data with reference to irregularities not reported as fraudulent.

<sup>81</sup> In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million.



In previous sections, reference was made to the fact that the irregularities involving the highest financial amounts are related to market measures. During the period 2015–2019, they concerned three specific types of measures, each of them targeted by one Member State. Three fraudulent irregularities related to MM, involving more than EUR 20 million each, were reported. Two of these irregularities were reported by Poland and concerned aid to producer groups for preliminary recognition in the sector ‘Fruits and vegetables’ (one of them was related to investment activities, the other one both to investment and formation/administrative operation). The third fraudulent irregularity was reported by France and concerned refunds for poultry meat. During the same period, five non-fraudulent irregularities related to MM, involving from EUR 10 million to more than EUR 20 million, were reported. Three of them were reported by Poland and concerned investments in the framework of aid to producer groups for preliminary recognition in the ‘Fruits and vegetables’ sector. Another irregularity was reported by France with reference to refunds for poultry meat. The fifth case was about food programmes for deprived persons and was reported by Romania.

Table NR17: Number of irregularities reported as fraudulent in relation to market measures

Market measure	Irregularities reported as fraudulent 2015-19		
	N	EUR	
Products of the wine-growing sector	National support programmes for the wine sector	64	8,085,826
	Restructuring and conversion of vineyards	1	753,082
	Null	1	122,538
	<b>Sub-total</b>	<b>66</b>	<b>8,961,445</b>
Fruits and vegetables	Aid to producer groups for preliminary recognition	35	63,236,969
	School fruit and vegetables scheme	4	276,718
	Operational funds for producer organisations	4	121,282
	Compensation to encourage processing of citrus fruits	3	2,736,503
	Other measures	3	314,934
	<b>Sub-total</b>	<b>49</b>	<b>66,686,406</b>
Promotion	Third countries	5	6,881,037
	Measures within the Union	4	3,369,365
	Null	5	9,100,231
	<b>Sub-total</b>	<b>14</b>	<b>19,350,633</b>
Milk and milk products	Aid for milk production reduction	7	332,272
	Null	2	0
	<b>Sub-total</b>	<b>9</b>	<b>332,272</b>
Sugar Restructuring Fund	Aid for diversification	4	2,543,124
Pigmeat, eggs and poultry, bee-keeping and other animal products	Refunds for poultrymeat	1	21,189,379
	Specific aid for bee-keeping	1	135,153
	<b>Sub-total</b>	<b>2</b>	<b>21,324,532</b>
Olive oil		1	1,203,346
School schemes		1	137,567
Rice		1	857
<b>TOTAL EU28</b>		<b>147</b>	<b>120,540,182</b>

The highest number of irregularities reported as fraudulent was related to national support programmes for the wine sector, in particular investment measures and promotion in third country markets. Most of the detections and irregular financial amounts concerned either investment measures or promotion. The majority of promotion measures affected by irregularities concerned third country markets.<sup>82</sup> Also restructuring and conversion of vineyards were affected by a number of fraudulent irregularities.<sup>83</sup>

<sup>82</sup> Fourteen out of twenty-five irregularities concerning promotion were explicitly related to third country markets. For the remaining irregularities, unequivocal attribution is not possible, because, as of 2014, the budget code does not refer to ‘Promotion on third country markets’, but just ‘promotion’. In some cases, in the same irregularity, violations concerning budget years before 2014 (‘Promotion on third country markets’) are combined with violations related to later budget years (‘promotion’), forcing classification in the broader

Another sector with many irregularities reported as fraudulent was *'Fruits and vegetables'*, in particular the measure *'aid for producer groups for preliminary recognition'*, which is the measure with the highest irregular financial amounts. While ranking first in terms of number of detections, *'products of the wine-growing sector'* were clearly overcome by other products, in terms of financial amounts involved. *'Fruits and vegetables'* represented more than 50% of the overall financial amounts. The majority of these detections and financial amounts concerned *'aid for producer groups for preliminary recognition'*. Within the aid for producer groups, a greater number of fraudulent irregularities and related financial amounts concerned *'Investment'* measures in comparison with *'Formation, administrative operations'*.

Also *'Promotion'* was significantly affected by fraud, in particular in terms of financial amounts involved. The irregularities were split between violations related to the EU markets and third country markets, but the financial amounts involved in the latter were higher.

The section *'Pigmeat, eggs and poultry, bee-keeping and other animal products'* ranked high in terms of irregular financial amounts, because of one single irregularity concerning *'refunds for poultry meat'*.

Table NR18: Number of irregularities not reported as fraudulent in relation to market measures

Market measure	Irregularities reported as fraudulent 2015-19	
	N	EUR
Products of the wine-growing sector	1,005	63,064,490
Fruit and vegetables	438	125,424,795
Other plant products/measures	81	5,843,553
Beef and veal	41	646,919
Sugar Restructuring Fund	33	5,494,806
Promotion	31	1,687,704
Pigmeat, eggs and poultry, bee-keeping and other animal products	21	11,163,505
Olive oil	17	482,839
Milk and milk products	16	520,269
Food programmes	8	33,310,984
Sugar	5	8,045,208
School schemes	2	22,225
Sheepmeat and goatmeat	1	15,828
<b>TOTAL EU28</b>	<b>1,699</b>	<b>255,723,125</b>

For irregularities not reported as fraudulent, the category *'products of the wine-growing sector'* was the most frequently reported, but *'fruit and vegetables'* was the one with the highest financial amounts, in particular due to the high AFA. Other categories with high AFA were *'Pigmeat, eggs and poultry, bee-keeping and other animal products'*, *'Food programmes'* and *'Sugar'*.

### 3.3.4. Reasons for performing controls

To enhance the capability to detect irregularities, the Commission recommended to the Member States to improve risk analysis and the use of spontaneous reporting. In the framework of the antifraud cycle, the detection capability is a key feature, which contributes to the effectiveness and efficiency of the system for the protection of the EU budget. In the

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category (*'promotion'*). However, it is reasonable to make the hypothesis that also a part of the 11 irregularities that, in Table NR17, are classified as *'promotion'* are actually related to third country markets.

<sup>83</sup> From 2010, *'restructuring and conversion of vineyards'* was framed within *'National support programmes for the wine sector'*. This is the reason why this measure is explicitly mentioned only once in Table NR17. There were seven additional irregularities related to this type of measure, which were included under *'National support programmes for the wine sector'* in Table NR17.

2017 PIF Report, an analysis of the reasons for performing controls was introduced and led to the recommendation to further exploiting the potential of risk analysis, tailoring the approach to the different types of expenditure and taking advantage of best practices and the risk elements highlighted in that Report. Furthermore, the report recommended to facilitating and assessing the spontaneous reporting of potential irregularities and strengthening the protection of whistle-blowers that are also a crucial source for investigative journalism.<sup>84</sup>

**So far, there seems to have been little improvement on the ground, at least in terms of detection after request for reimbursement to the Commission, but it could be too early to draw any conclusions.** This is what is suggested by Tables NR19-NR24. The 2017 PIF Report was adopted at the beginning of September 2018 and effective evolution from reactive to proactive detections based on risk analysis may take time. In addition, there are time gaps between the moment the control bodies receive or produce (for example, through risk analysis) the information that triggers a check, the moment the check leads to detect the irregularity and the moment this irregularity is reported through IMS. A study has been done for the Cohesion and Fishery policies, which estimated to be about one year the overall time gap between suspicion and reporting. It should also be considered that non-fraudulent irregularities that are detected and corrected at the national level before inclusion of the expenditure in a statement submitted to the Commission for reimbursement do not have to be reported in the Irregularity Management System (IMS) (which is the source for this Report). Therefore, in case, for example, risk analysis were to be having a higher impact in terms of ‘early’ detection of these irregularities, this would not be captured by Tables NR19-NR24. On the other hand, it should be kept in mind that this exception does not apply to fraudulent irregularities, which should always be reported, even when detected before submission of the expenditure to the Commission.

#### *3.3.4.1 Irregularities in relation to rural development*

**With reference to RD, there seems to be no increase in the use of risk analysis and in the number of irregularities detected following tips (e.g. from whistleblowers) or information published by media .**

With a focus on controls that led to discovering irregularities reported as fraudulent in RD, Table NR19 provides information on the number of controls that were performed because of reasons that can be linked to the recommendations mentioned in Section 3.3.4. It compares the situation before 2018 with the situation in 2018-2019. In these past 2 years, Member States have not reported the detection of any irregularity on the basis of risk analysis or similar (apart from one case of ‘*comparison of data*’) <sup>85</sup> or information published by the media. The share of irregularities detected following tips decreased from 8.5% to 5%.

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<sup>84</sup> Section 9.2 of ‘*29th Annual Report on the Protection of the EU’s financial interests – Fight against fraud – 2017*’, COM(2018)553 final and ‘*Statistical evaluation of irregularities reported for 2017: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure*’, SWD(2018)386 final.

<sup>85</sup> In Table NR19 also reasons that might hint to the use of some forms of risk analysis have been introduced (comparison of data, probability checks and statistical analysis).

Table NR 19

Reason for performing control	Irregularities reported as fraudulent - Rural development					
	2015-2017			2018-2019		
	N.	%	EUR	N.	%	EUR
Risk analysis	26	4.4	4,492,173	0	0.0	0
Comparison of data	3	0.5	537,631	1	0.5	286,884
Probability checks	2	0.3	40,301	0	0.0	0
Statistical analysis	0	0.0	0	0	0.0	0
Tip from informant, whistle-blower etc.	50	8.5	4,750,067	10	5.0	764,007
Information published in the media	3	0.5	195,903	0	0.0	0
<b>Total (1)</b>	<b>590</b>		<b>89,288,961</b>	<b>202</b>		<b>31,488,147</b>

(1) Total number of irregularities classified as RD (rural development) and reported as fraudulent

Table NR20 provides the same information for **irregularities not reported as fraudulent** in RD. There was a slight increase in the use of risk analysis and possibly similar methods; the share of relevant irregularities moved from 3.1% to 3.6%. Changes were not significant also for tips and media. With specific reference to risk analysis (in the strict sense), no Member State that had not reported this type of detections in 2015-2017 reported it in 2018-2019. During 2018-2019, detections based on risk analysis (in the strict sense) were confined to six Member States (55% of such detections in Hungary).

Table NR 20

Reason for performing control	Irregularities not reported as fraudulent - Rural development					
	2015-2017			2018-2019		
	N.	%	EUR	N.	%	EUR
Risk analysis	134	1.9	10,225,728	72	2.0	3,143,944
Comparison of data	56	0.8	2,366,528	44	1.2	1,173,486
Probability checks	15	0.2	904,806	16	0.4	685,290
Statistical analysis	13	0.2	200,316	0	0.0	0
Tip from informant, whistle-blower etc.	77	1.1	6,779,043	52	1.4	4,281,583
Information published in the media	29	0.4	1,825,447	12	0.3	510,505
<b>Total (1)</b>	<b>6,910</b>		<b>409,054,156</b>	<b>3,596</b>		<b>170,320,801</b>

(1) Total number of irregularities classified as RD (rural development) and not reported as fraudulent

### 3.3.4.2 Irregularities in relation to market measures

**With reference to MM, there seems to be no increase in the use of risk analysis and in the number of irregularities detected following information published by media or tips.**

With a focus on controls that led to discovering irregularities reported as fraudulent in MM, Table NR21 compares the situation before 2018 with the situation in the years 2018-2019. The categories '*Scrutiny 4045*' and '*Scrutiny 485*' refer to Regulation 4045/1989 and Regulation 485/2008, respectively. These deal with the scrutiny of commercial documents of those entities receiving payments from the Guarantee section of the EAGGF (Reg. 4045/1989) or from the EAGF (Reg. 485/2008)<sup>86</sup>. While Reg. 485/2008 explicitly introduced the concept of risk analysis, Reg. 4045/1989 already required consideration of risk factors and concentration on sectors or undertakings where the risk of fraud is high. In 2018-2019, apart from a declining share concerning '*Scrutiny 4045/Scrutiny 485*' the Member States did not report detecting any irregularities on the basis of risk analysis, information published by the media or tips.

<sup>86</sup> Reg. 485/2008 repealed Reg. 4045/1989.

Table NR 21

Reason for performing control	Irregularities reported as fraudulent - Market measures					
	2015-2017			2018-2019		
	N.	%	EUR	N.	%	EUR
Risk analysis	13	12.4	1,170,162	0	0.0	0
Comparison of data	0	0.0	0	0	0.0	0
Probability checks	0	0.0	0	0	0.0	0
Statistical analysis	0	0.0	0	0	0.0	0
Scrutiny 4045	5	4.8	496,397	3	7.1	1,848,780
Scrutiny 485	53	50.5	28,956,951	9	21.4	435,027
Tip from informant, whistle-blower etc.	3	2.9	30,824,206	0	0.0	0
Information published in the media	0	0.0	0	0	0.0	0
<b>Total (1)</b>	<b>105</b>		<b>75,496,947</b>	<b>42</b>		<b>45,043,236</b>

(1) Total number of irregularities classified as MM (market measures) and reported as fraudulent

Table NR22 provides the same information for **irregularities not reported as fraudulent** in MM. In the past two years, there was a slight increase in the use of risk analysis and possibly similar methods; the share of relevant irregularities moved from 2.9% to 3.4%, in line with what can be seen for rural development (see Section 3.3.4.1). This was due to an increase in 'comparison of data', but the financial amounts involved in these irregularities were relatively low. Furthermore, it is not clear what kind of activity was reported under this reason. The share of irregularities detected on the basis of 'Scrutiny 4045/Scrutiny 485' decreased by more than six percentage points. The share of irregularities detected following tips slightly increased, but on the basis of very few cases.

Table NR 22

Reason for performing control	Irregularities not reported as fraudulent - Market measures					
	2015-2017			2018-2019		
	N.	%	EUR	N.	%	EUR
Risk analysis	22	2.2	1,625,908	17	2.4	1,223,556
Comparison of data	0	0.0	0	4	0.6	60,857
Probability checks	7	0.7	193,905	3	0.4	111,080
Statistical analysis	0	0.0	0	0	0.0	0
Scrutiny 3508	1	0.1	241,574	2	0.3	104,912
Scrutiny 4045	137	13.7	11,681,127	109	15.5	10,503,542
Scrutiny 485	166	16.6	22,072,212	58	8.3	6,476,282
Tip from informant, whistle-blower etc.	5	0.5	946,949	6	0.9	20,909,979
Information published in the media	0	0.0	0	1	0.1	19,483
<b>Total (1)</b>	<b>998</b>		<b>121,108,246</b>	<b>701</b>		<b>134,614,879</b>

(1) Total number of irregularities classified as MM (market measures) and not reported as fraudulent

### 3.3.4.3 Irregularities in relation to direct payments

**With reference to DA, there seems to be no increase in the use of risk analysis and in the number of irregularities detected following information published by media. However, the percentage of non-fraudulent irregularities detected because of tips grew from 1% to 3%.**

With a focus on controls that led to discovering **irregularities reported as fraudulent** in DA, Table NR23 compares the situation before 2018 with the situation in 2018-2019.<sup>87</sup> In 2018-2019, apart from a declining share concerning tips, the Member States detected just two irregularities on the basis of risk analysis or similar.

<sup>87</sup> For an explanation about the categories 'Scrutiny 4045' and 'Scrutiny 485', see above Section 3.3.4.2.

Table NR 23

Reason for performing control	Irregularities reported as fraudulent - Direct payments					
	2015-2017			2018-2019		
	N.	%	EUR	N.	%	EUR
Risk analysis	0	0.0	0	2	0.9	335,981
Comparison of data	1	0.3	37,229	0	0.0	0
Probability checks	0	0.0	0	0	0.0	0
Statistical analysis	0	0.0	0	0	0.0	0
Scrutiny 4045	0	0.0	0	0	0.0	0
Scrutiny 485	0	0.0	0	0	0.0	0
Tip from informant, Information published in the media	11	3.3	175,532	5	2.1	286,605
Information published in the media	0	0.0	0	0	0.0	0
<b>Total (1)</b>	<b>335</b>		<b>17,327,832</b>	<b>233</b>		<b>12,036,593</b>

(1) Total number of irregularities classified as DA (direct payments) and reported as fraudulent

Table NR24 provides the same information for **irregularities not reported as fraudulent** in DA. In the past two years, there was a slight decrease in the use risk analysis and possibly similar methods; the share of relevant irregularities moved from 5% to 4.5%. In particular, only 0.5% of cases were started because of risk analysis (in the strict sense), while there was an increase of nearly two percentage points in ‘*comparison of data*’. It is not clear what kind of activity was reported under this reason. There was no increase in the use of information published in the media, while the use of tips increased as a reason for the detection irregularities (from 1.4% to 3.1%).

Table NR 24

Reason for performing control	Irregularities not reported as fraudulent - Direct payments					
	2015-2017			2018-2019		
	N.	%	EUR	N.	%	EUR
Risk analysis	65	3.2	1,723,648	6	0.5	198,540
Comparison of data	31	1.5	818,518	40	3.3	946,806
Probability checks	7	0.3	487,585	8	0.7	211,018
Statistical analysis	0	0.0	0	0	0.0	0
Scrutiny 4045	3	0.1	1,700,083	0	0.0	0
Scrutiny 485	0	0.0	0	0	0.0	0
Tip from informant, whistle-blower etc.	28	1.4	494,408	37	3.1	696,796
Information published in the media	0	0.0	0	0	0.0	0
<b>Total (1)</b>	<b>2,052</b>		<b>90,804,350</b>	<b>1,210</b>		<b>54,094,446</b>

(1) Total number of irregularities classified as DA (direct payments) and not reported as fraudulent

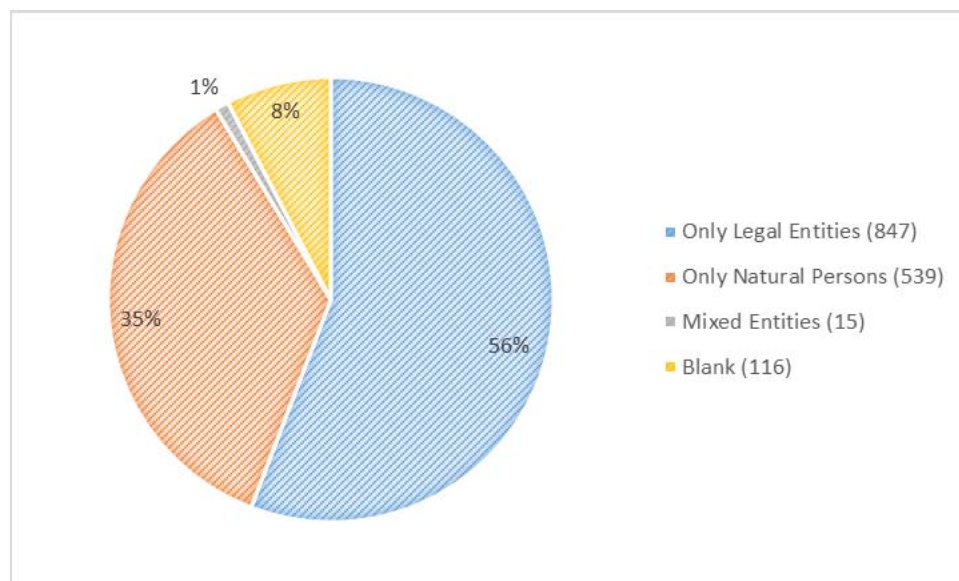
### 3.3.5 Profile of persons involved

**In the majority of fraudulent irregularities, the “persons involved”<sup>88</sup> were legal entities. For a significant one-third of cases they were natural persons.** This analysis concerns the 1,517 irregularities reported as fraudulent in relation to CAP between 2015 and 2019. Findings are based on the characteristics of the entities (natural or legal persons) involved in the irregularities reported as fraudulent.<sup>89</sup> Graph NR6 shows their distribution in relation to the type of person. For the majority of these cases (56%), the persons involved were only legal entities, while in one-third of them (35%) they were only natural persons. Apart from a few irregularities wherein both types of persons were mentioned, for the remaining cases the Member States have not provided the relevant information.

<sup>88</sup> A person involved is anyone who had or has a substantial role in the irregularity. This could be the beneficiary, the person who initiated the irregularity (such as the manager, consultant or adviser), the person who committed the irregularity, etc.

<sup>89</sup> For the purpose of this analysis, when reference is made to person or entity, without further specification, it is a reference to both type of person/entity (natural and legal). When reference is only to natural or to legal person/entity, this is specified.

Graph NR6: CAP – Types of Person involved in irregularities reported as fraudulent (2015-2019)



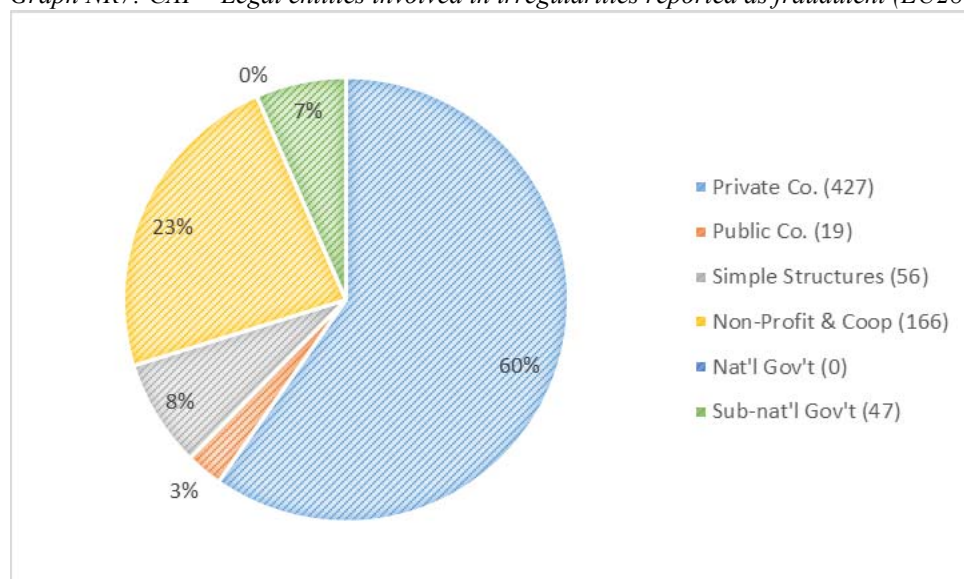
**Most fraudulent irregularities report a single person involved.** Some 1,596 persons were involved to these 1,517 cases; most fraudulent irregularities report a single person, although a few have upwards of a dozen. These 1,596 persons consist of 919 legal entities and 677 natural persons. This analysis does not attempt to determine persons involved who are named in multiple cases and thus such parties would be counted once for every irregularity in which they are reported. IMS does not provide structured information regarding the corporate form or legal status (*'organisational status'*) of the legal entities. However, for the purpose of this analysis, their *'organisational status'* has been surmised based on the examination of their names.<sup>90</sup>

This made it possible to classify 715 (78%) of these legal entities. For purposes of this analysis, the following classification has been adopted: (1) *'private companies'*, (2) *'public companies'*, (3) *'simple structures'*, (4) *'national governmental bodies'*, (5) *'sub-national governmental bodies'*, and (6) *'non-profits and cooperatives'* (see Annex 15). The category *'private companies'* includes entities such as limited companies whose shares are not traded on the stock market. *'Public companies'* includes entities such as limited companies whose shares are publicly traded. *'Simple structures'* includes entities lacking legal distinction between the owner and the business entity such as sole proprietorships and partnerships. *'National governmental bodies'* include any governmental entity operating at the national or central level (ministries, agencies, etc.). *'Sub-national governmental bodies'* include all governmental entities operating below the national level (regional bodies, municipalities, local officials, etc.). *'Non-profits and cooperatives'* is a catchall for entities such as associations, educational institutions, cooperatives and generally organisations whose primary goal is not the generation of income for members or shareholders.

**The majority of legal entities involved are private companies, followed by non-profit organisations, in particular associations.** Graph NR7 shows the distribution of the 715 legal entities based on this classification. The majority of them (427) were *'private companies'*, while the second largest group was *'non-profits and cooperatives'* (166), most of which (114) were associations.

<sup>90</sup> The actual organisational status has not been verified on the basis of searches of the specific entities involved, but it has been deduced based on identifiers in names of the persons involved (i.e., companies with "Ltd" in their name were identified as private limited companies, etc.).

Graph NR7: CAP - Legal entities involved in irregularities reported as fraudulent (EU28 2015-2019)



For most Member States, private companies represent the majority of the persons involved. Associations are often mentioned in fraudulent irregularities reported by Romania. Table NR24b, below, breaks down the statistics by Member State. Given the low number of persons in most Member States, it is not possible to draw meaningful conclusions at the single Member State level. However, it is notable that for most Member States, private companies represent the majority of the persons involved. The only exception with a larger sample is Romania, evenly split between private companies and associations (sub-categorised under Non-profits), together accounting for approximately half of all persons reported by Romania.

Table NR24b: CAP - Legal entities involved in irregularities reported as fraudulent by MS (2015-2019)

	Private Co.	Public Co.	Simple Structures	Non-Profit & Coops	Nat'l Gov't	Sub-nat'l Gov't	Un-determined	Total
AT	-	-	-	1	-	-	-	1
BE	-	-	-	-	-	-	-	0
BG	17	1	5	10	-	6	4	43
CY	2	-	-	2	-	-	-	4
CZ	10	-	-	3	-	1	1	15
DE	3	-	-	-	-	1	-	4
DK	-	5	1	-	-	-	9	15
EE	34	-	-	3	-	1	-	38
ES	4	1	1	-	-	-	5	11
FI	-	-	-	2	-	-	-	2
FR	8	2	9	-	-	-	26	45
GR	-	-	-	-	-	-	-	0
HR	1	1	-	1	-	-	2	5
HU	34	-	-	-	-	2	10	46
IE	-	-	1	21	-	-	-	22
IT	5	-	12	1	-	1	5	24
LT	26	-	1	-	-	-	1	28
LU	-	-	-	-	-	-	-	0
LV	21	-	-	-	-	-	10	31
MT	-	-	-	-	-	-	-	0
NL	2	-	1	0	-	-	14	17
PL	153	1	17	9	-	1	14	195
PT	10	2	-	5	-	-	-	17
RO	86	4	8	100	-	33	81	312
SE	-	-	-	-	-	-	-	0
SI	2	1	-	-	-	-	3	6
SK	7	1	-	8	-	1	10	27
UK	2	-	-	-	-	-	9	11
Total	427	19	56	166	-	47	204	919



### 3.4. Anti-fraud activities of Member States

Previous sections have examined the trend and main features and characteristics of the irregularities reported as fraudulent.

The present section digs into some aspects linked to the anti-fraud activities and results of Member States in particular. Four elements are analysed:

- (1) duration of irregularities (fraudulent and non-fraudulent). No analysis by Member State is presented in this section;
- (2) the number of irregularities reported as fraudulent by each Member State (in 2019 and over the past five years);
- (3) the FDR (the ratio between the amounts involved in cases reported as fraudulent and the payments occurred in the same period) and the IDR (the ratio between the amounts involved in cases not reported as fraudulent and the payments occurred in the same period) over the past five years<sup>91</sup>;
- (4) the follow-up given the suspected fraud.

#### 3.4.1. Duration of irregularities

**The majority of irregularities have been protracted during a span of time, in particular in the case of fraudulent irregularities, consistent with their intentional nature. The average duration of these protracted irregularities is slightly more than two years, both for fraudulent and non-fraudulent cases.** The Member States are requested to indicate the date or period when the irregularity was committed. Of the 17,222 irregularities (fraudulent and non-fraudulent) reported by Member States in 2015-2019 in relation to CAP, 9,807 (57% of the total) involved infringements that have been protracted during a span of time. For the 1,517 irregularities reported as fraudulent, the percentage rises to about 66%. The remaining part of the dataset refers to irregularities which consisted of a single act identifiable on a precise date (about 39% of the whole dataset and 32% of that including only the fraudulent irregularities) or for which no information has been provided<sup>92</sup> (4% of the whole dataset, but only 1% of the irregularities reported as fraudulent). The average duration of the irregularities which have been protracted over time was 27 months (*i.e.* 2 years and 3 months). For the irregularities reported as fraudulent, this average was just one month less: 26 months.

#### 3.4.2. Detection of irregularities reported as fraudulent by Member State

##### 3.4.2.1. Reported during the period 2015-2019

Table NR25 offers an overview of the irregularities reported as fraudulent by Member States during the period 2015-2019. It also shows the related amounts, overall payments for the agricultural policy and the FDR. The heat map on FDR associated to Table NR25 is centered on the FDR at EU28 level (0.10%).

Belgium and Malta have notified no irregularities as fraudulent; 15 other Member States reported less than 30 potentially fraudulent irregularities; seven Member States reported between 30 and 60; four Member States more than 60.

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<sup>91</sup> The Member States have the obligation to report only irregularities for which payment and certification to the Commission occurred. As a consequence, the IDR focuses on the 'repressive' side of the anti-fraud cycle and does not include the results of 'prevention' activities. This does not apply to the FDR, as fraudulent cases must be reported regardless.

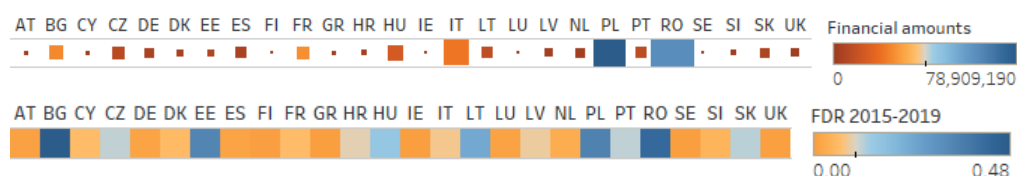
<sup>92</sup> This includes cases where start date and end date were not filled in.

**The FDRs of Bulgaria and Romania exceeded 0.40%. FDR was significantly higher than the EU average also in Poland, Estonia and Lithuania.** Romania, Poland and Italy are the three countries which have reported the highest numbers, while Poland, Romania, France, Bulgaria and Italy reported the highest amounts.

Table NR25: Irregularities reported as fraudulent by Member State in 2015-2019

Member State	Irregularities reported as fraudulent 2015-19		Payments in 2015-19		FDR 2015-19
	N	EUR	N	EUR	%
AT	5	345,563	6,151,240,517		0.01%
BE	0	0	3,284,592,633		0.00%
BG	55	24,901,171	5,222,385,705		0.48%
CY	4	211,760	371,531,263		0.06%
CZ	44	6,671,472	5,858,203,390		0.11%
DE	24	2,697,711	30,346,734,035		0.01%
DK	14	2,517,569	4,819,077,578		0.05%
EE	15	3,885,839	1,141,181,080		0.34%
ES	32	2,840,109	32,820,406,507		0.01%
FI	1	41,297	4,509,012,185		0.00%
FR	49	25,964,126	45,919,250,809		0.06%
GR	4	64,643	13,443,476,521		0.00%
HR	10	1,588,709	1,744,049,574		0.09%
HU	68	12,944,687	8,411,822,626		0.15%
IE	2	15,242	7,740,263,465		0.00%
IT	170	21,108,605	27,494,828,306		0.08%
LT	37	7,780,203	3,266,978,819		0.24%
LU	1	15,857	231,366,459		0.01%
LV	20	1,552,873	1,854,168,870		0.08%
MT	0	0	73,398,803		0.00%
NL	24	1,176,192	4,306,966,227		0.03%
PL	312	78,909,190	22,560,594,604		0.35%
PT	33	7,347,225	6,383,260,281		0.12%
RO	535	62,244,013	14,580,263,294		0.43%
SE	1	0	4,412,411,257		0.00%
SI	9	484,017	1,187,935,285		0.04%
SK	30	3,656,217	3,100,378,473		0.12%
<b>TOTAL EU27</b>	<b>1,499</b>	<b>268,964,290</b>	<b>261,235,778,565</b>		<b>0.10%</b>
UK	18	379,214	19,113,316,285		0.00%
<b>TOTAL EU28</b>	<b>1,517</b>	<b>269,343,504</b>	<b>280,349,094,850</b>		<b>0.10%</b>

Number of irregularities (size) and financial amounts involved (colour - see legend)



### 3.4.2.2. Reported in 2019

Table NR26 offers an overview of the irregularities reported as fraudulent by Member State in 2019. It also shows the related amounts, overall payments for the agricultural policy and the FDR.

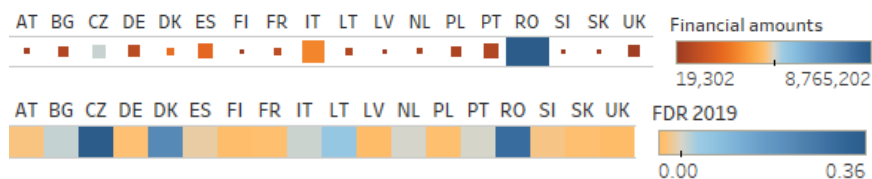
Seven Member States reported no irregularities as fraudulent; most Member States reported less than 30 fraudulent irregularities; only two Member States reported 30 or more than 30 fraudulent irregularities.

**The highest FDRs were recorded in Czechia, Romania and Denmark.** Romania was the Member State which has reported the highest number of irregularities and related financial amounts. Relatively high financial amounts were reported also by Czechia, Italy, Denmark and Spain.

Table NR26: Irregularities reported as fraudulent by Member State in 2019

Member State	Irregularities reported as fraudulent in 2019		Payments in 2019		FDR
	N	EUR	N		%
AT	2	201,956	1,253,752,340		0.02%
BG	6	562,135	1,114,039,299		0.05%
CZ	11	4,517,320	1,264,472,833		0.36%
DE	9	764,935	6,183,521,378		0.01%
DK	4	2,189,150	934,316,537		0.23%
ES	15	1,932,530	6,858,582,670		0.03%
FI	1	41,297	879,554,552		0.00%
FR	4	853,075	9,515,579,176		0.01%
IT	30	2,698,809	5,722,095,072		0.05%
LT	3	541,957	650,574,206		0.08%
LV	1	19,302	460,512,201		0.00%
NL	2	335,981	794,201,096		0.04%
PL	7	390,492	4,507,856,899		0.01%
PT	14	543,891	1,297,086,483		0.04%
RO	116	8,765,202	2,857,156,182		0.31%
SI	1	47,509	262,148,074		0.02%
SK	1	70,516	665,646,253		0.01%
<b>TOTAL EU27</b>	<b>227</b>	<b>24,476,057</b>	<b>53,558,479,472</b>		<b>0.05%</b>
UK	8	147,531	3,999,671,682		0.00%
<b>TOTAL EU28</b>	<b>235</b>	<b>24,623,588</b>	<b>57,558,151,154</b>		<b>0.04%</b>

Number of irregularities (size) and financial amounts involved (colour - see legend)



### 3.4.3. Fraud and Irregularity Detection by sector and Member State

#### 3.4.3.1. Rural development

Table NR27 and Map NR1 provide an overview of the irregularities reported as fraudulent by Member States and related FDRs during the period 2015-2019 in relation to RD. It also shows the related amounts, overall payments for RD and the FDR.

Table NR27: Rural development: number of irregularities reported as fraudulent 2015-2019, amounts involved and fraud detection rate by Member State

Member State	Irregularities reported as fraudulent 2015-19		Payments 2015-2019	FDR 2015-2019
	N	EUR	N	%
AT	2	78,834	2,545,809,179	0.00%
BG	45	9,594,062	1,372,835,251	0.70%
CY	3	158,390	84,975,281	0.19%
CZ	36	2,658,708	1,509,390,068	0.18%
DE	16	2,252,015	5,042,641,829	0.04%
DK	9	2,396,265	471,175,020	0.51%
EE	15	3,885,839	515,085,373	0.75%
ES	17	803,019	4,638,074,068	0.02%
FI	1	41,297	1,829,792,187	0.00%
FR	5	856,318	6,811,185,139	0.01%
GR	3	43,412	2,814,820,220	0.00%
HR	9	1,453,557	807,265,786	0.18%
HU	48	8,179,136	1,818,905,352	0.45%
IE	1	2,750	1,623,406,556	0.00%
IT	21	3,516,149	5,416,741,007	0.06%
LT	36	7,737,904	1,006,587,274	0.77%
LV	20	1,552,873	787,381,095	0.20%
NL	5	219,906	338,201,707	0.07%
PL	186	13,133,984	5,061,903,486	0.26%
PT	23	6,843,956	2,556,305,378	0.27%
RO	251	51,616,823	6,116,688,857	0.84%
SI	2	96,271	469,565,182	0.02%
SK	26	3,381,808	876,956,483	0.39%
<b>TOTAL EU27</b>	<b>780</b>	<b>120,503,276</b>	<b>55,847,516,851</b>	<b>0.22%</b>
UK	12	273,831	3,261,261,724	0.01%
<b>TOTAL EU28</b>	<b>792</b>	<b>120,777,107</b>	<b>59,108,778,574</b>	<b>0.20%</b>

Number of irregularities (size) and financial amounts involved (colour - see legend)



These irregularities exclusively refer to RD. A number of additional cases concerned both RD and SA, including MM or DA (see Table NR6, NR7 and Annex 12), but considering them is not likely to significantly change the picture. This applies also to Table NR28.

**Romania, Lithuania, Estonia and Bulgaria recorded the highest FDRs. FDR was significantly higher than the EU average also in Denmark, Hungary and Slovakia.** Twenty-four Member States have reported fraudulent cases in relation to RD during the period 2015-2019. Romania and Poland reported the highest numbers. The highest financial amounts were communicated by Romania, Poland, Bulgaria and Hungary.

## Map NR1: Fraud Detection Rate by Member State (EU 28) Rural development - 2015-2019 (%)

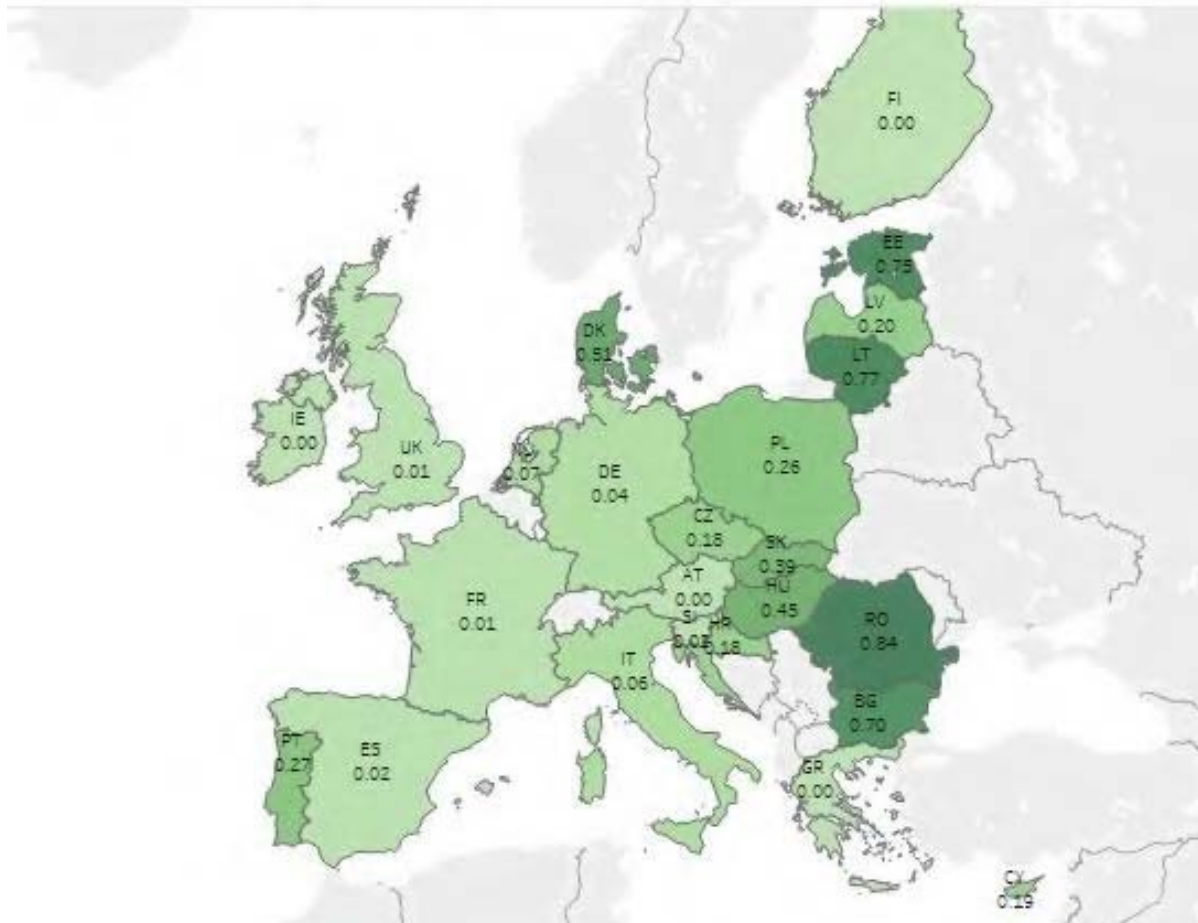
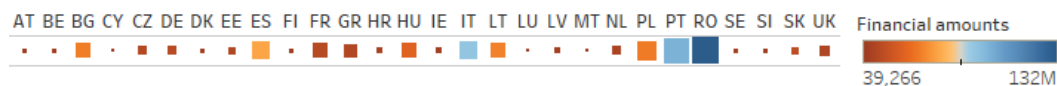


Table NR28 and Map NR2 provide an overview of the irregularities not reported as fraudulent by Member States during the period 2015-2019 in relation to RD. Table NR28 also shows the related amounts, overall payments for RD and the IDR.

Table NR28: Rural development: number of irregularities not reported as fraudulent 2015-2019, amounts involved and irregularity detection rate by Member State

Member State	Irregularities not reported as fraudulent in 2015-19		Payments in 2015-19		IDR 2015-19
	N	EUR	N	%	
AT	43	1,304,733	2,545,809,179		0.05%
BE	56	1,525,217	309,311,878		0.49%
BG	600	38,109,828	1,372,835,251		2.78%
CY	3	207,092	84,975,281		0.24%
CZ	206	8,589,062	1,509,390,068		0.57%
DE	207	11,071,414	5,042,641,829		0.22%
DK	46	2,545,914	471,175,020		0.54%
EE	145	7,622,842	515,085,373		1.48%
ES	840	50,672,009	4,638,074,068		1.09%
FI	46	1,079,280	1,829,792,187		0.06%
FR	532	10,040,098	6,811,185,139		0.15%
GR	481	7,730,246	2,814,820,220		0.27%
HR	105	4,451,948	807,265,786		0.55%
HU	617	26,963,994	1,818,905,352		1.48%
IE	74	2,823,089	1,623,406,556		0.17%
IT	797	76,232,477	5,416,741,007		1.41%
LT	525	39,456,122	1,006,587,274		3.92%
LU	1	39,266	61,757,959		0.06%
LV	82	2,842,948	787,381,095		0.36%
MT	12	756,465	45,672,372		1.66%
NL	197	5,505,655	338,201,707		1.63%
PL	920	37,617,516	5,061,903,486		0.74%
PT	1585	86,305,914	2,556,305,378		3.38%
RO	1847	132,295,475	6,116,688,857		2.16%
SE	38	2,619,350	915,082,864		0.29%
SI	69	1,463,281	469,565,182		0.31%
SK	139	12,814,787	876,956,483		1.46%
<b>TOTAL EU27</b>	<b>10,213</b>	<b>572,686,022</b>	<b>55,847,516,851</b>		<b>1.03%</b>
UK	293	6,688,933	3,261,261,724		0.21%
<b>TOTAL EU28</b>	<b>10,506</b>	<b>579,374,955</b>	<b>59,108,778,574</b>		<b>0.98%</b>

Number of irregularities (size) and financial amounts involved (colour - see legend)



**Lithuania, Portugal and Bulgaria recorded the highest IDRs. IDR was significantly higher than the EU average also in Romania, Malta, The Netherlands, Hungary, Estonia, Slovakia and Italy.** Romania, Portugal, Poland, Spain and Italy reported the highest numbers. The highest financial amounts were communicated by Romania.

## Map NR2: Irregularity Detection Rate by Member State (EU 28) Rural development - 2015-2019 (%)



Tables NR27 and NR28 suggest that the reporting of irregularities was concentrated in a few Member States. The top two Member States in terms of number of detections (Romania and Poland) reported about 55% of all fraudulent irregularities and irregular financial amounts related to RD, while they received about 19% of payments. With reference to non-fraudulent irregularities, the top two Member States (Romania and Portugal) reported 33% of cases and 38% of the irregular financial amounts, but received about 15% of payments.

**Analysis suggests that the concentration of detections went beyond what could be expected from the distribution of payments related to RD among Member States.** This concentration was analysed in detail in the 2018 PIF Report, with reference to the period 2014-2018.<sup>93</sup> The outcome of the analysis could be due to many different factors, including different underlying levels of irregularities and fraud, a different quality of the prevention or detection activities or different practices concerning the stage of the procedure when potentially fraudulent irregularities were reported. This difference in concentration between detections and payments was less evident for non-fraudulent irregularities, which might be taken as an indication of more homogenous approaches to management and administrative controls, even if the examination of data concerning individual Member States highlighted significant discrepancies. The concentration of detections was instead more accentuated for fraudulent irregularities, suggesting that different approaches to the use of criminal law to protect the EU budget could be an additional and significant factor pushing for further dishomogeneity among Member States. This analysis has not been replicated for this Annual

<sup>93</sup> Section 3.4.3.1 of 'Statistical evaluation of irregularities reported for 2018: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure', SWD(2019)365 final.

Report, with reference to the period 2015-2019, as the situation is not expected to have changed significantly in one year.

### 3.4.3.2. Market measures

Table NR29 and Map NR3 provide an overview of the irregularities reported as fraudulent by Member States during the period 2015-2019 in relation to MM. The table also shows the related amounts, overall payments for MM and the FDR.

Table NR29: Market measures: number of irregularities reported as fraudulent 2015-2019, amounts involved and fraud detection rate by Member State

Member State	Irregularities reported as fraudulent 2015-19		Payments 2015-2019	FDR 2015-2019
	N	EUR	N	%
AT	3	266,729	140,035,934	0.19%
BG	10	15,307,109	157,181,295	9.74%
CY	1	53,370	37,870,114	0.14%
CZ	2	3,953,696	106,318,249	3.72%
DE	1	281,884	832,804,490	0.03%
DK	1	95,217	77,221,861	0.12%
ES	4	1,845,337	2,783,803,493	0.07%
FR	44	25,107,808	2,915,992,960	0.86%
HR	1	135,153	38,773,398	0.35%
HU	19	4,577,732	238,105,576	1.92%
IT	5	4,692,931	3,211,472,408	0.15%
LT	1	42,299	88,154,242	0.05%
NL	2	0	309,062,719	0.00%
PL	34	62,220,655	699,065,371	8.90%
PT	7	448,670	544,452,622	0.08%
RO	5	1,123,850	210,407,713	0.53%
SI	7	387,745	39,415,655	0.98%
<b>TOTAL EU28</b>	<b>147</b>	<b>120,540,185</b>	<b>13,837,979,813</b>	<b>0.87%</b>

Number of irregularities (size) and financial amounts involved (colour - see legend)



A part of these irregularities are not exclusively referred to MM, but the reporting authority may have also included budget lines/posts referring to other measures (i.e. DA, RD or other payments related to budget years before 2006). These irregularities have been included in their full value in Table NR29 (see Annex 12). This applies also to Table NR30 below.

**FDR was the highest in Bulgaria and Poland but it was significantly higher than the EU average also in Czechia and Hungary.** Seventeen Member States have reported fraudulent cases in this area. France, Poland and Hungary reported the highest numbers. The highest financial amounts were communicated by Poland, France and Bulgaria.



## Map NR3: Fraud Detection Rate by Member State (EU 28) Market measures- 2015-2019 (%)

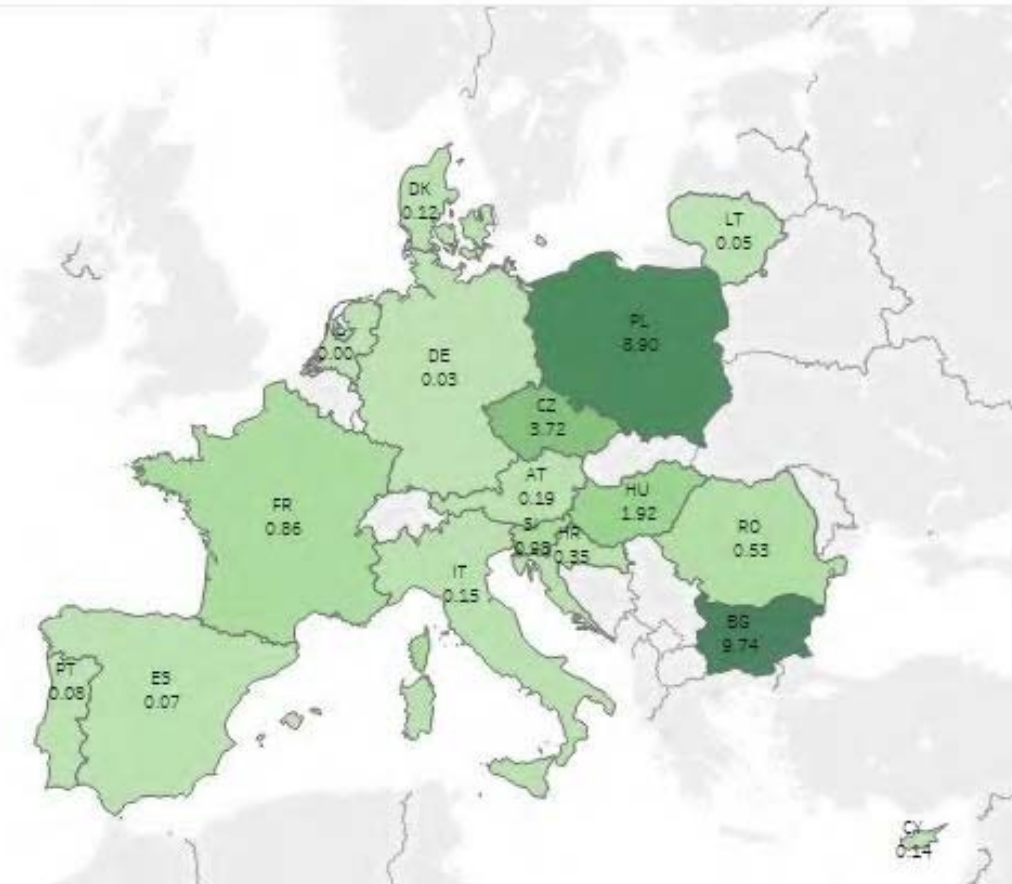


Table NR30 and Map NR4 provide an overview of the irregularities not reported as fraudulent by Member States during the period 2015-2019 in relation to MM. It also shows the related amounts, overall payments for MM and the IDR.

Table NR30: Market measures: number of irregularities not reported as fraudulent 2014-2018, amounts involved and irregularity detection rate by Member State

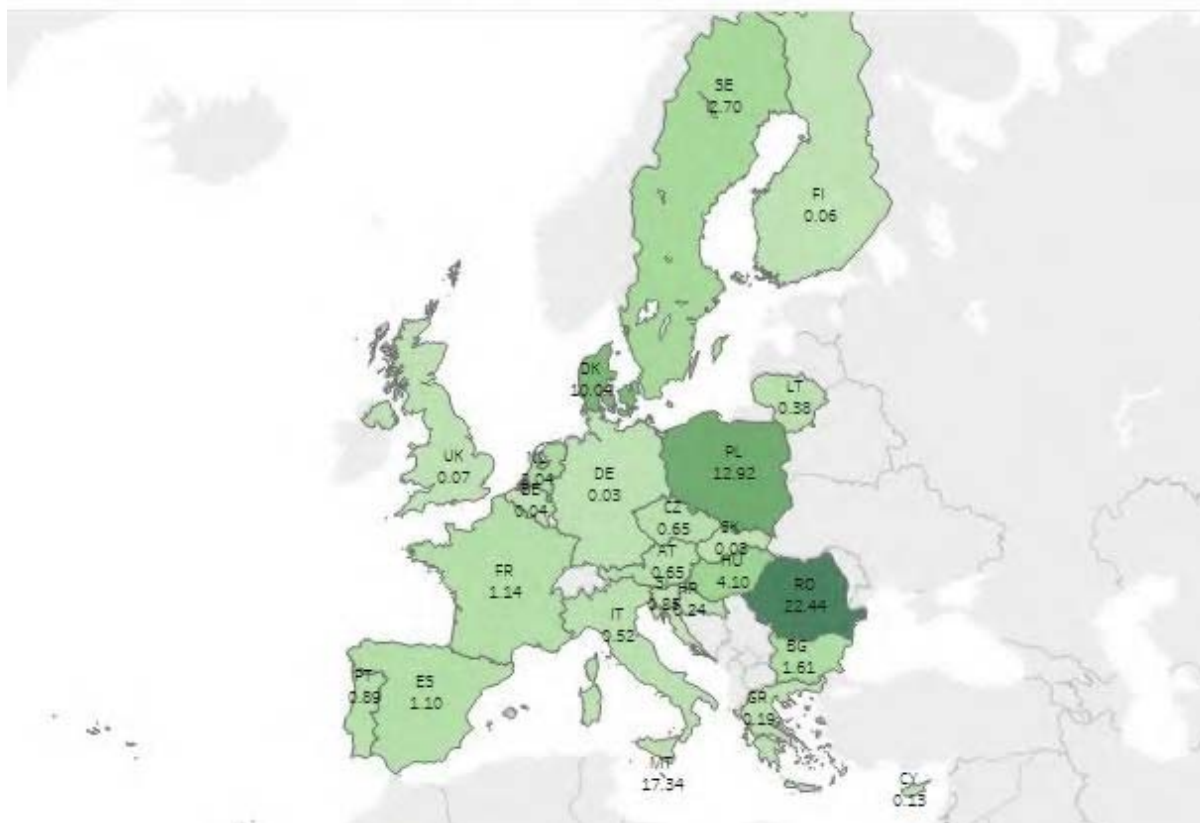
Member State	Irregularities not reported as fraudulent in 2015-19		Payments in 2015-19	IDR 2015-19
	N	EUR	N	%
AT	8	903,891	140,035,934	0.65%
BE	5	170,978	403,688,585	0.04%
BG	12	2,522,964	157,181,295	1.61%
CY	1	50,000	37,870,114	0.13%
CZ	5	693,313	106,318,249	0.65%
DE	12	261,862	832,804,490	0.03%
DK	5	7,753,627	77,221,861	10.04%
ES	466	30,676,826	2,783,803,493	1.10%
FI	2	36,798	62,128,232	0.06%
FR	324	33,336,640	2,915,992,960	1.14%
GR	22	650,624	343,148,637	0.19%
HR	2	92,014	38,773,398	0.24%
HU	113	9,765,682	238,105,576	4.10%
IT	289	16,833,820	3,211,472,408	0.52%
LT	5	337,371	88,154,242	0.38%
MT	3	372,454	2,148,402	17.34%
NL	64	6,300,596	309,062,719	2.04%
PL	104	90,349,241	699,065,371	12.92%
PT	137	4,843,989	544,452,622	0.89%
RO	100	47,216,204	210,407,713	22.44%
SE	8	2,209,891	81,983,791	2.70%
SI	4	98,579	39,415,655	0.25%
SK	2	42,787	51,118,012	0.08%
<b>TOTAL EU27</b>	<b>1,693</b>	<b>255,520,151</b>	<b>13,534,683,759</b>	<b>1.89%</b>
UK	6	202,973	303,296,054	0.07%
<b>TOTAL EU28</b>	<b>1,699</b>	<b>255,723,124</b>	<b>13,837,979,813</b>	<b>1.85%</b>

Number of irregularities (size) and financial amounts involved (colour - see legend)



**IDR was the highest in Romania, Malta, Poland and Denmark, but it was more than double the EU average also in Hungary.** Twenty-four Member States have reported non fraudulent cases with reference to MM (one more than during the period 2014-2018). Spain, France and Italy reported the highest numbers. The highest financial amounts were communicated by Poland, Romania, France and Spain.

## Map NR4: Irregularity Detection Rate by Member State (EU 28) Market measures - 2015-2019 (%)



Tables NR29 and NR30 suggest that the reporting of irregularities was concentrated in a few Member States. The top two Member States in terms of number of detections (France and Poland) reported about 53% of all fraudulent irregularities (73% of irregular financial amounts) related to MM, while they received about 26% of payments. With reference to non-fraudulent irregularities, the top two Member States in terms of number of detections (Spain and France) did not overlap with the highest ranking Member States, in terms of financial amounts involved (Poland and Romania). The top two Member States reported about 54% of the irregular financial amounts and received about 7% of payments.

**Analysis suggests that the concentration of detections went beyond what could be expected from the distribution of payments related to market measures among Member States, especially for fraudulent irregularities.** As mentioned in Section 3.4.3.1, this concentration was analysed in detail in the 2018 PIF Report, with reference to the period 2014-2018.<sup>94</sup> **In particular, this analysis suggested the need for more homogeneity concerning the use of criminal law to protect the EU.** This analysis has not been replicated for this Annual Report, with reference to the period 2015-2019, as the situation is not expected to have changed significantly in one year.

<sup>94</sup> Section 3.4.3.2 of 'Statistical evaluation of irregularities reported for 2018: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure', SWD(2019)365 final.

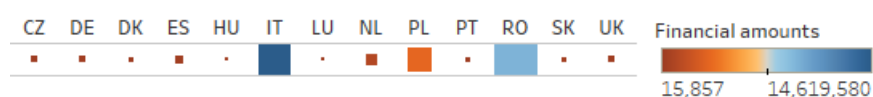
### 3.4.3.3. Direct payments to farmers

Table NR31 and Map NR5 provide an overview of the **irregularities reported as fraudulent** by Member States during the period 2015-2019 in relation to direct payments to farmers. It also shows the related amounts, overall payments for direct payments and the FDR.

Table NR31: Direct payments: number of irregularities reported as fraudulent 2015-2019, amounts involved and fraud detection rate by Member State

Member State	Irregularities reported as fraudulent 2015-19		Payments 2015-2019		FDR 2015-2019
	N	EUR	N		%
CZ	6	59,069	4,242,495,073		0.00%
DE	7	163,813	24,471,287,716		0.00%
DK	3	26,087	4,270,680,696		0.00%
ES	11	191,753	25,398,528,946		0.00%
HU	1	187,819	6,354,811,699		0.00%
IT	145	14,619,580	18,866,614,891		0.08%
LU	1	15,857	165,693,390		0.01%
NL	17	956,285	3,659,701,801		0.03%
PL	87	3,251,472	16,799,625,747		0.02%
PT	3	54,599	3,282,502,281		0.00%
RO	278	9,459,782	8,253,166,723		0.11%
SK	3	272,925	2,172,303,978		0.01%
<b>TOTAL EU27</b>	<b>562</b>	<b>29,259,041</b>	<b>191,853,577,955</b>		<b>0.02%</b>
UK	6	105,383	15,548,758,508		0.00%
<b>TOTAL EU28</b>	<b>568</b>	<b>29,364,424</b>	<b>207,402,336,463</b>		<b>0.01%</b>

Number of irregularities (size) and financial amounts involved (colour - see legend)



A part of these irregularities are not exclusively referred to DA, but the reporting authority may have also included budget lines/posts referring to other measures (i.e. MM, RD or other payments related to budget years before 2006). These irregularities have been included in their full value in Table NR31 (see Annex 12). This applies also to Table NR32 below.

**Romania and Italy recorded the highest FDRs.** Thirteen Member States have reported fraudulent cases in this area. Romania and Italy reported the highest numbers, while Italy reported the highest financial amounts.

## Map NR5: Fraud Detection Rate by Member State (EU 28) Direct aid to farmers- 2015-2019 (%)

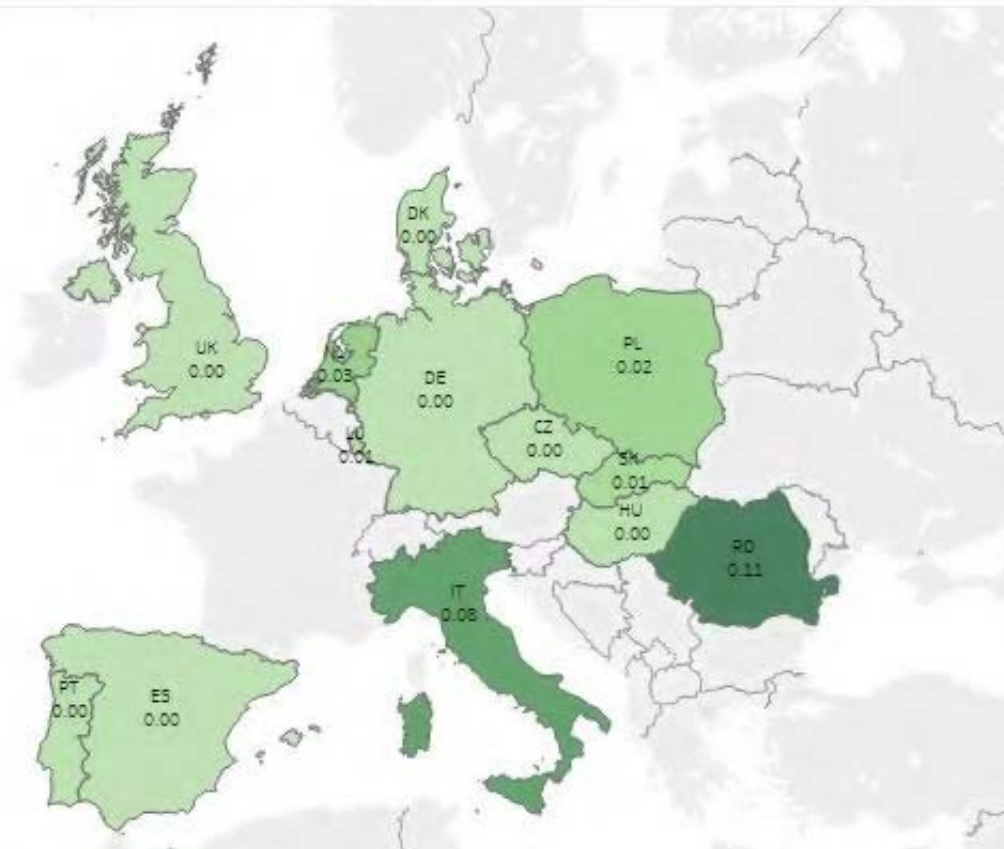
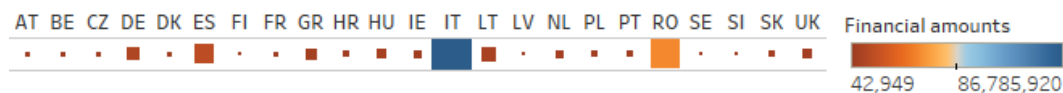


Table NR32 and Map NR6 provide an overview of the **irregularities not reported as fraudulent** by Member States during the period 2015-2019 in relation to direct payments. It also shows the related amounts, overall payments for direct payments and the IDR.

Table NR32: Direct payments: number of irregularities not reported as fraudulent 2015-2019, amounts involved and irregularity detection rate by Member State

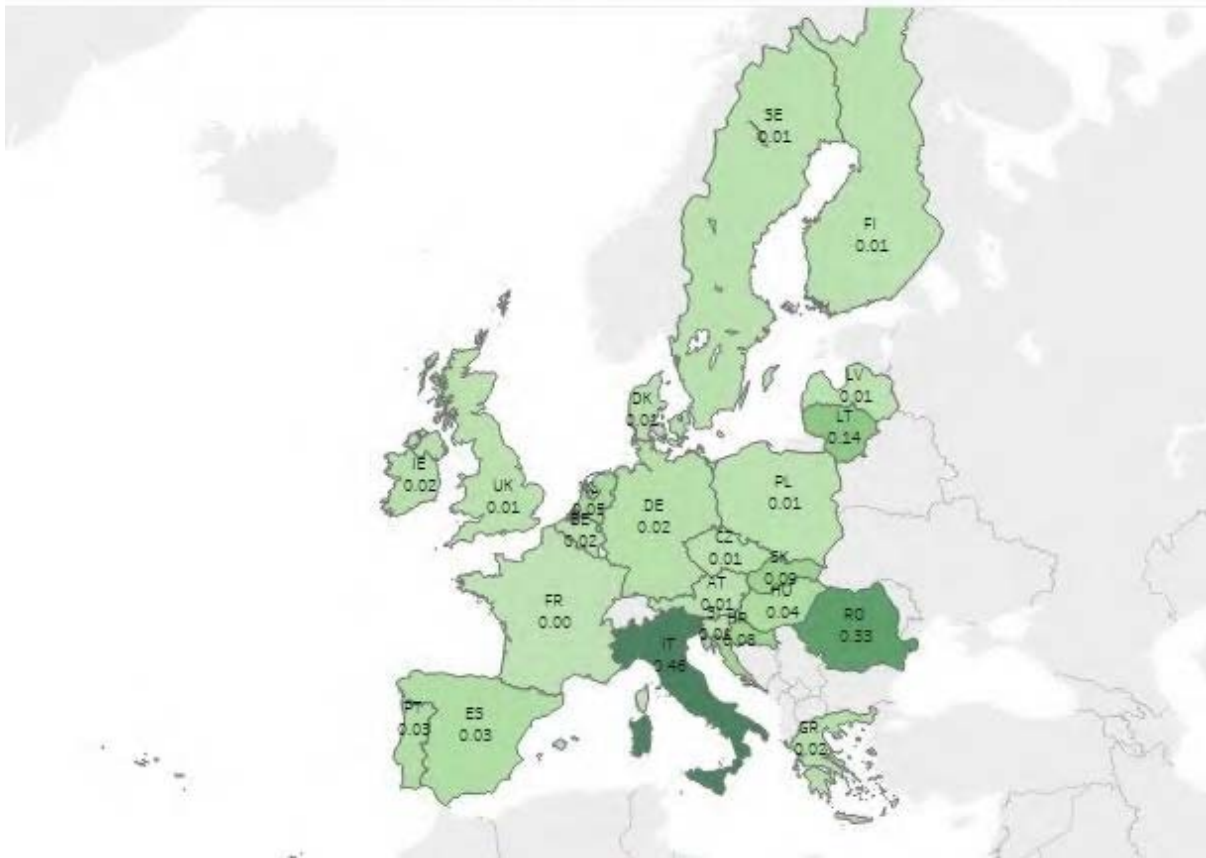
Member State	Irregularities not reported as fraudulent in 2015-19		Payments in 2015-19	IDR 2015-19	
	N	EUR	N	%	
AT	15	251,228	3,465,395,404	0.01%	
BE	25	412,246	2,571,592,171	0.02%	
CZ	23	443,541	4,242,495,073	0.01%	
DE	128	4,576,804	24,471,287,716	0.02%	
DK	22	541,881	4,270,680,696	0.01%	
ES	282	7,913,031	25,398,528,946	0.03%	
FI	9	292,970	2,617,091,766	0.01%	
FR	22	439,303	36,192,072,710	0.00%	
GR	95	1,630,722	10,285,507,663	0.02%	
HR	28	737,885	898,010,389	0.08%	
HU	73	2,294,909	6,354,811,699	0.04%	
IE	60	973,190	6,041,367,825	0.02%	
IT	1438	86,785,920	18,866,614,891	0.46%	
LT	152	2,953,498	2,172,237,303	0.14%	
LV	4	54,863	1,018,869,321	0.01%	
NL	52	1,897,693	3,659,701,801	0.05%	
PL	29	897,490	16,799,625,747	0.01%	
PT	30	827,410	3,282,502,281	0.03%	
RO	659	27,299,400	8,253,166,723	0.33%	
SE	5	241,790	3,415,344,603	0.01%	
SI	3	42,949	678,954,448	0.01%	
SK	35	1,881,132	2,172,303,978	0.09%	
<b>TOTAL EU27</b>	<b>3,189</b>	<b>143,389,855</b>	<b>191,853,577,955</b>	<b>0.07%</b>	
UK	73	1,508,939	15,548,758,508	0.01%	
<b>TOTAL EU28</b>	<b>3,262</b>	<b>144,898,794</b>	<b>207,402,336,463</b>	<b>0.07%</b>	

Number of irregularities (size) and financial amounts involved (colour - see legend)



**The IDR was the highest in Italy and Romania.** Twenty-three Member States have reported non-fraudulent cases with reference to DA. Italy and Romania reported both the highest numbers and the highest financial amounts.

Map NR6: Irregularity Detection Rate by Member State (EU 28)  
Direct aid to farmers - 2015-2019 (%)



Tables NR31 and NR32 suggest that the reporting of irregularities was concentrated in a few Member States. The top two Member States in terms of number of detections (Romania and Italy) reported about 75% of all fraudulent irregularities (and 82% of irregular financial amounts) related to DA, while they received about 13% of payments. With reference to non-fraudulent irregularities, the top two Member States in terms of number of detections (Italy and Romania) reported about 64% of such irregularities (and 79% of irregular financial amounts), while they received about 13% of payments.

**Analysis suggests that the concentration of detections went beyond what could be expected from the distribution of payments related to direct aid to farmers among Member States.** This concentration was analysed in detail in the 2018 PIF Report, with reference to the period 2014-2018.<sup>95</sup> The findings of this analysis may be due to different factors, including dishomogeneous management and control systems and, for the fraudulent irregularities, different approaches to the use of criminal law to protect the EU financial interests. This analysis has not been replicated for this Annual Report, with reference to the period 2015-2019, as the situation is not expected to have changed significantly in one year.

#### 3.4.4. Follow-up to suspected fraud

Since the PIF Report 2014, the analysis has also focused on the follow-up the Member States give to suspected fraud they reported. The simple methodology adopted in past PIF Reports

<sup>95</sup> Section 3.4.3.3 of 'Statistical evaluation of irregularities reported for 2018: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure', SWD(2019)365 final

leads to assess that only for 15% of irregularities reported as fraudulent, fraud was then actually established, while in another 25% of these cases fraud was dismissed. As mentioned, this methodology is open to a number of shortcomings, due to the possibility that irregularities are cancelled or reclassified from non-fraudulent to fraudulent during their lifetime.

The following table is the result of a different, more precise approach to the analysis of the follow-up Member States give to the suspected fraud they report. It addresses the above mentioned issues<sup>96</sup>:

- This analysis focuses on PP 2007-2013 and considers the irregularities that have been reported from 2007 to 2013, so that the most recent irregularities have been reported six years before the end of 2019;
- The irregularities that have been cancelled after they have been reported are not considered;
- The irregularities that initially had been considered as non-fraudulent and then were reclassified as fraudulent before the end of 2013 are included in the analysis and their incidence is pointed out;
- The irregularities that initially had been considered as fraudulent and then were reclassified as non-fraudulent before the end of 2013 are included in the analysis.

Table NR33 is based on five indicators:

- *Reclassification ratio*: it gives the percentage of irregularities that initially had not been reported as fraudulent and then were reclassified as fraudulent before end 2013. This percentage is calculated with reference to the total number of non-fraudulent irregularities;<sup>97</sup>
- *Incidence of reclassification*: it gives the percentage of fraudulent irregularities that were initially reported as non-fraudulent. As mentioned, the numerator takes into consideration only the instances of reclassification from non-fraudulent to fraudulent that took place before the end of 2013. Differently from the *Reclassification ratio*, the percentage is calculated with reference to the total number of fraudulent irregularities;<sup>98</sup>

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<sup>96</sup> IRQ2 stands for non-fraudulent irregularities, IRQ3 stands for suspected fraud, IRQ5 stands for established fraud. The evolution of the irregularities has been analysed. The following paths are kept into the analysis: from non-fraudulent to fraudulent (IRQ2IRQ3, IRQ2IRQ3IRQ5, IRQ2IRQ5), from fraudulent to non-fraudulent (IRQ3IRQ2, IRQ5IRQ3IRQ2), from suspected fraud to established fraud (IRQ3IRQ5), 'back-and-forth' (IRQ2IRQ3IRQ2, IRQ3IRQ2IRQ3). Other more complex or unclear paths have been left out of the analysis, because they are more likely to be the result of reporting mistakes rather than actual changes in the substance of the case. These 'special paths' are: IRQ3IRQ2IRQ5 (1 case), IRQ3IRQ2IRQ5IRQ3IRQ2 (1), IRQ3IRQ5IRQ3 (1), IRQ3IRQ5IRQ3IRQ2 (2), IRQ5IRQ2 (2). They represent less than 1% of the relevant irregularities.

<sup>97</sup> Reclassification before end 2013 makes these irregularities part of this analysis. On the contrary, other irregularities that initially had been reported as non-fraudulent during 2007-2013, but were reclassified as fraudulent after 2013 are not part of this analysis. The '*Reclassification ratio*' includes also irregularities that, at a later stage, have been reclassified back to non-fraudulent. So the numerator of this indicator is made of the following paths: IRQ2IRQ3, IRQ2IRQ3IRQ2, IRQ2IRQ3IRQ5, IRQ2IRQ5. For the denominator, the IRQ2 irregularities are added (of course the irregularities reported between 2007 and 2013 only).

<sup>98</sup> This indicator has the same numerator of the '*Reclassification ratio*', but the denominator is made of all irregularities that became fraudulent (the numerator) or were initially reported as fraudulent (even if, at a later stage, they were reclassified back as non-fraudulent). From now onwards, the irregularities considered in this denominator will be referred to as the 'population'.



- *Dismissal ratio*: it gives the percentage of fraudulent irregularities that have been reclassified as non-fraudulent during their lifetime, until end of 2019;<sup>99</sup>
- *Established fraud ratio*: it gives the percentage of fraudulent irregularities that at the end of 2019 were classified as established fraud;<sup>100</sup>
- *Pending ratio*: it gives the percentage of fraudulent irregularities that at the end of 2019 were still classified as suspected fraud;<sup>101</sup>

Table NR33 reports also the average times. For example, the average time related to the dismissal ratio quantifies the number of days for an irregularity to change classification from fraudulent to non-fraudulent.<sup>102</sup>

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<sup>99</sup> The numerator of this indicator is made of the following paths: IRQ2IRQ3IRQ2, IRQ3IRQ2, IRQ5IRQ3IRQ2. So it includes also the reclassification of fraudulent irregularities that initially had been reported as non-fraudulent (IRQ2IRQ3IRQ2). The denominator of this indicator is the population (see above), as for the ‘*Incidence of reclassification*’, the ‘*Established fraud ratio*’ and the ‘*Pending ratio*’.

<sup>100</sup> The numerator of this indicator includes also the irregularities that were reported as established fraud since the beginning. The denominator of this indicator is the population (see above), as for the ‘*Incidence of reclassification*’, the ‘*Dismissal ratio*’ and the ‘*Pending ratio*’.

<sup>101</sup> The numerator of this indicator is made of the following paths: IRQ3, IRQ2IRQ3, IRQ5IRQ3, IRQ3IRQ2IRQ3. The denominator of this indicator is the population (see above), as for the ‘*Incidence of reclassification*’, the ‘*Dismissal ratio*’ and the ‘*Established fraud ratio*’.

<sup>102</sup> *Average time related to reclassification ratio*: Time from initial reporting (as non-fraudulent) until the first reclassification as fraudulent. As mentioned, only irregularities for which the first reclassification as fraudulent took place before the end of 2013 are considered in the analysis.

*Average time related to dismissal ratio*: Time from initial reporting (as suspected fraud) until the reclassification as non-fraudulent (this reclassification can take place during the whole lifetime of the irregularity). For an irregularity that followed the path IRQ2IRQ3IRQ2, the start date for the calculation is the date of the reclassification to IRQ3 (and not the date of initial reporting as IRQ2) and the end date is the date of reclassification back to IRQ2. For an irregularity that followed the path IRQ5IRQ3IRQ2, the start date for the calculation is the date of the reclassification to IRQ3 (and not the date of initial reporting as IRQ5) and the end date is the date of reclassification to IRQ2.

*Average time related to established fraud ratio*: Time from initial reporting (or reclassification) as suspected fraud until reclassification as established fraud. Irregularities that have been reported as established fraud since the beginning are not considered in the calculation of the average.

Table NR33 - CAP - Programming Period 2007-2013, irregularities reported during the period 2007-2013

Member State	Re classification			Incidence of reclassification	Dismissal			Established fraud			Pending		
	N.	Ratio	Average time		N.	Ratio	Average time	N.	Ratio	Average time	N.	Ratio	of which OPEN
		%	days			%	days		%	days		%	%
AT	0	0.0		0.0	0	0.0		1	14.3	248	6	85.7	0.0
BE	0	0.0		0.0	0	0.0		1	12.5		7	87.5	0.0
BG	0	0.0		0.0	24	10.4	3,237	60	26.1	442	146	63.5	71.9
CY	0	0.0		0.0	0	0.0		0	0.0		1	100.0	100.0
CZ	0	0.0		0.0	14	87.5	1,884	2	12.5	2,674	0	0.0	
DE	0	0.0		0.0	10	41.7	1,232	4	16.7	1,264	10	41.7	40.0
DK	0	0.0		0.0	13	11.0	2,031	0	0.0		105	89.0	26.7
EE	0	0.0		0.0	1	4.8	2,267	7	33.3	1,451	13	61.9	30.8
ES	4	0.3	1,542	20.0	10	50.0	1,118	0	0.0		10	50.0	40.0
FR	0	0.0		0.0	10	50.0	1,036	0	0.0		10	50.0	30.0
GR	1	1.0	737	4.3	7	30.4	1,211	1	4.3		15	65.2	93.3
HU	28	5.1	327	38.4	54	74.0	2,133	2	2.7	685	17	23.3	100.0
IE	0	0.0		0.0	0	0.0		0	0.0		4	100.0	0.0
IT	12	1.3	418	14.3	26	31.0	1,313	7	8.3	801	51	60.7	82.4
LT	1	0.3	61	100.0	0	0.0		0	0.0		1	100.0	0.0
LU	0	0.0		0.0	0	0.0		0	0.0		1	100.0	100.0
LV	0	0.0		0.0	2	22.2	543	2	22.2	583	5	55.6	60.0
MT	0	0.0		0.0	0	0.0		0	0.0		5	100.0	100.0
NL	0	0.0		0.0	0	0.0		0	0.0		1	100.0	100.0
PL	15	2.4	348	10.5	30	21.0	1,007	24	16.8	1,039	89	62.2	39.3
PT	0	0.0		0.0	0	0.0		0	0.0		1	100.0	0.0
RO	5	0.5	329	3.5	3	2.1	2,185	15	10.5	2,037	125	87.4	91.2
SE	0	0.0		0.0	0	0.0		0	0.0		6	100.0	83.3
SI	0	0.0		0.0	0	0.0		4	30.8	2,225	9	69.2	33.3
SK	0	0.0		0.0	0	0.0		1	50.0	2,197	1	50.0	100.0
<b>EU27</b>	<b>66</b>	<b>0.9</b>	<b>423</b>	<b>6.8</b>	<b>204</b>	<b>20.9</b>	<b>1,770</b>	<b>131</b>	<b>13.4</b>	<b>1,085</b>	<b>639</b>	<b>65.6</b>	<b>61.0</b>
UK	0	0.0		0.0	0	0.0		2	28.6		5	71.4	0.0
<b>EU28</b>	<b>66</b>	<b>0.8</b>	<b>423</b>	<b>6.7</b>	<b>204</b>	<b>20.8</b>	<b>1,770</b>	<b>133</b>	<b>13.6</b>	<b>1,085</b>	<b>644</b>	<b>65.6</b>	<b>60.6</b>

About 7% of the fraudulent irregularities had previously been reported as non-fraudulent and then were reclassified, on average after more than one year. These irregularities had a higher tendency to be dismissed than other irregularities (compare with *dismissal ratio*). An irregularity can be part of the analysis in Table NR33 either because it was initially reported as fraudulent or because during 2007-2013 it was reclassified from non-fraudulent to fraudulent. Actually, 6.7% of these irregularities entered into the analysis because of reclassification, which on average took place 423 days after the reporting as non-fraudulent. In 42% of cases, these irregularities were then reclassified back to non-fraudulent, which is much higher than the general *dismissal ratio* (21%).

This reclassification was concentrated in a few Member States, with different average times of reclassification. This could be the result of different reporting practices or co-operation agreements between administrative and judicial authorities or could point to the need to improve the capability of control authorities to timely spot potential fraud. This phenomenon was concentrated in seven Member States, with different average times of reclassification, ranging from two months to more than four years. The *incidence of reclassification* of Lithuania and Spain was high, but based on just one and four irregularities, respectively. In Hungary, 38% of the fraudulent irregularities were the result of reclassification, with an average time of nearly one year. However, most of these cases of suspected fraud were then dismissed. In Italy and Poland, the *incidence of reclassification* was lower than in Hungary, but still significant, with higher average times. Only a minority of these irregularities were then dismissed. Different values of this indicator are not positive or negative *per se*. Different *incidences of reclassification* across Member States could be due to different reporting practices, for example in terms of the phase of the procedure when an

irregularity is labelled as suspected fraud, or in terms of co-operation between the administrative authority and the authority entrusted with investigating intentionality, which is usually the judicial authority. In any case, cooperation should be based on a clear commitment by the judicial authority to act quickly on the notification by the administrative authority. On the other hand, if the reclassification was not due to the development of the initial procedure, but to another subsequent event - such as tip from an informant or information on the media - this could point to the need to improve the capability of the authorities in charge of control to identify potential fraud, for example on the basis of red flags.

**About 21% of the irregularities reported as fraudulent were dismissed, on average after nearly five years. Another 66% of these irregularities were still pending and for more than one third of them no changes of status are to be expected.** This is due to the fact that 40% of the irregularities that were still labelled as suspected fraud at the end of 2019 were closed. This points to a significant underestimation of the *dismissal ratio*, which could be already considered above 45%, with the potential to exceed 85%, if most of the pending cases of suspected fraud will be dismissed.

**The *dismissal ratio* varied across the Member States, as the related average time. High *dismissal ratios*, especially when associated with high *pending ratios*, may be due either to the detection phase or to the investigation/prosecution phase, especially when they are associated with high times. Low *dismissal ratios* may be positive, but they may also be the result of many irregularities still pending.** After six years following the end of the period under consideration, the *dismissal ratio* was zero or very low in many Member States. This indicator must be read in combination with the *pending ratio*. The latter points to the possibility that the *dismissal ratio* increases in the future (depending on the number of cases that are still open) or to an underestimation of the *dismissal ratio* (depending on the number of cases that are already closed). For example, in Romania the *dismissal ratio* was low at 2%, but 87% of irregularities were still pending as suspected fraud. However, about one tenth of the pending cases of suspected fraud were already closed at the end of 2019, so the *dismissal ratio* could be already considered about 10%, with the potential to approach 90%. In Bulgaria, the *dismissal ratio* was higher, at 10%, but the *pending ratio* was much lower, at 63%. However, about one fourth of the pending cases of suspected fraud were already closed at the end of 2019, so the *dismissal ratio* could be already considered about 25%, with the potential to exceed 70%. The *dismissal ratio* was much higher in other Member States, such as Czechia and Hungary. The *pending ratio* was zero and low for Czechia and Hungary, respectively. In other Member States, the *dismissal ratio* was still significant, but lower, such as in Italy, but the *pending ratio* was much higher. The average times of reclassification were very high, ranging from one year and a half, in Latvia, to nine years, in Bulgaria.

**The cases of established fraud were few and, on average, these decisions were reached after about three years. This may point to the need to invest further in the investigation/prosecution phase.** At EU28 level, *established fraud ratio* was lower than 14%. It was zero or very low in many Member States. In Bulgaria, the ratio was relatively high, at 26%, and based on the (by far) highest number of cases of established fraud. In general, the *established fraud ratio* is not likely to increase significantly because, while 66% of cases are still classified as suspected fraud (*pending ratio*), about 40% of them is already closed and, in any case, between 6 and 13 years have already passed since the detection of the irregularity.

### 3.5. Recovery cases

For an in-depth analysis of recovery and financial corrections in the CAP, see Annex 5 Annual Activity Report of DG AGRI and the 2019 Annual Management and Performance Report for the EU Budget<sup>103</sup>.

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<sup>103</sup> COM (2020) 265 final on 24/6/2020. See also the Communication from the Commission to the Parliament, the Council and the Court of Auditors on the Protection of the EU budget – COM(2016)486 on 18/7/2016.