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Measures to protect the 2021-2027 Multiannual Financial Framework and Next Generation EU recovery funds from corruption and fraud

The Council of the European Union (EU), the European Parliament as well as the European Commission should anticipate and put in place adequate mechanisms for effectively safeguarding the next round of EU funds and public contracting from mismanagement, fraud and corruption. As national and EU leaders are close to reaching an agreement on the 2021-2027 Multiannual Financial Framework (MFF), the undersigning twenty-seven organisations urge you to set forth specific actions to prevent, detect and dismantle corruption schemes diverting EU funds – particularly those aimed at the recovery – towards political financing or private gain.

Corruption networks will target the increased and extraordinary influx of financial resources to be invested by the 27 Member States, amounting almost €1.8 trillion (through the MFF and Next Generation EU). Moreover, the need to spend them swiftly – mainly during the next three years – significantly increases the risks of mismanagement, misappropriation, and fraud. Strong emphasis must be placed on public contracting procedures since it is the primary instrument for the disbursement and investment of EU funds. It is also one of the most frequent vehicles for corruption, and it is estimated that the EU and its citizens lose around €5 billion a year through corrupt contracts.¹

Even before the COVID-19 crisis, the EU was not exempt from fraud and corruption, as various oversight institutions and independent organisations have documented, including the European Anti-Fraud Office (OLAF) and Transparency International. For instance, in the last five years (2015-

¹ European Parliamentary Research Service, RAND Europe (2016). *The Cost of Non-Europe in the area of Organised Crime and Corruption*. Available at: https://www.rand.org/pubs/research_reports/RR1483.html

2019) OLAF reported 3,431 fraudulent irregularities related to EU-funded expenditure, involving approximately €2.3 billion.² We believe the rule of law mechanism is critical to secure a sound and consistent institutional environment that upholds legality and democracy across the bloc. Additionally, timely, comprehensive and effective measures to safeguard EU funds and investments are needed.

In parallel to the rule of law mechanism, there should exist open, data-driven and participatory oversight measures. Whereas a set of national and EU institutions and procedures are in place to prevent and investigate fraud and corruption in the use of public funds, their work is not enough, and many cases go undetected. OLAF's latest report³ on the protection of the EU's financial interests indicates that an increase in spending can bring a higher number of fraudulent irregularities. It also recommends improving transparency, as well as extending monitoring and control to prevent and detect corruption schemes.

Enabling broader channels and measures for external and independent monitoring will foster strategic and concerted actions against corruption networks, particularly in sensitive areas such as public contracting. Civil society organisations, research centres and citizens enhance the work of EU and national oversight bodies by providing key input for increased and targeted interventions.

Considering the concerns of the European Parliament regarding the protection of the EU budget and increased accountability to citizens, we have identified a set of actions expected from the members of the Council, the Parliament, and the Commission, to enhance protection of public funds:

1. Toughen rules and guidelines to address fraud and corruption risks in the new MFF, including recovery funds.

- a. The **Council of the EU** and the **European Parliament** should agree an enhanced Common Provisions Regulation (CPR) – which sets rules for the expenditure and control of the MFF – with increased anti-corruption controls, as well as accountability-oriented transparency obligations.
- b. As part of their Partnership Agreements and operational programmes, the **Member States** and the **Commission** must include an anti-corruption strategy to prevent fraud and corruption in the use of EU funds. Strong emphasis should be placed on public contracting. These strategies must be discussed and agreed in open collaboration with civil society.
- c. The **Commission** must toughen the revision process of the control and audit measures included in the recovery and resilience plans submitted by the Member States to access Next Generation EU (NGEU) funds. It should also suggest

² European Anti-Fraud Office (2020). *31st Annual Report on the protection of the European Union's financial interests – Fight against fraud – 2019*. Available at:

https://ec.europa.eu/anti-fraud/about-us/reports/communities-reports_en

³ Ibid.

additional oversight measures for high-value projects. Public consultations should be contemplated before the plans are approved.

- d. **Member States** that have not concluded the transposition of the Directive on the Protection of the Union's Financial Interests (PIF Directive), due in July 2019, should not be eligible for NGEU funds until the process has been fully completed and notified.

2. Increase availability and quality of critical data to monitor EU funds: budget, expenditure, contracting and companies, including beneficial ownership records.

- a. **Member States** and the **Commission** must earmark funds to improve government information systems that allow tracing EU funds, from the budgetary stage to the final beneficiary or recipient, building on existing best practices.⁴
- b. **Members States** should fully implement the provisions of the EU Anti-Money Laundering Directive to prevent and detect the flow of illicit funds and ensure the availability of accurate and verified beneficial ownership information.
- c. **Member States** should adopt open data publication standards that improve the usability and comparability of public information, most notably the Open Contracting Data Standard (OCDS) and the Beneficial Ownership Data Standard (BODS).
- d. The **Commission** must pause the disbursement of EU funds to managing authorities failing to update and publish information about their contracting procedures required by the EU directives on public procurement.

3. High-value projects and programmes funded with EU resources must be protected with additional independent and external oversight mechanisms, as they pose increased corruption risks.

- a. **Member States** and the **Commission** must identify investments with higher corruption risks, as operational programmes are developed, and make mandatory the inclusion of independent and complementary monitoring mechanisms. Those with public contracting procedures should be prioritised. Among the alternatives are open market consultations, Integrity Pacts,⁵ shadow social audits, technology-enabled monitoring tools.

⁴ For instance, the platform OpenCoesione in Italy provides access to searchable data on funds and projects related to the national cohesion policy. Available at: <https://opencoesione.gov.it/en/>

⁵ An 'Integrity Pact' is a real-time monitoring mechanism for public contracting procedures. It commits a contracting authority and bidders to comply with best practice and maximum transparency. A third actor, usually a civil society organisation or coalition, monitors the process and reports timely to the public and relevant authorities its findings, suggesting preventive or corrective actions. In the 2014-2020 Multiannual Financial Framework, Integrity Pacts were utilised to safeguard EU funds in 11 countries for 18 contracting projects, in different sectors, through a project piloted by Transparency International and 15 national

- b. The **Commission** should continue leading initiatives to develop and consolidate innovative mechanisms and technologies for effective oversight of EU funds and public contracting monitoring, based on civic participation.
- c. The **European Parliament**, the **Council of the EU** and the **Commission** should grant adequate resources to the recently created European Public Prosecutor's Office (EPPO) to carry out effective and coordinated transnational investigations of corruption and fraud cases of EU-funded investments.

The next MFF and the NGEU, as well as additional resources that the Member States will access from other financial institutions, must fund progress and the common good. They should not fund politics or the pockets of the corrupt. We urge you to present and include immediate provisions to protect the EU's shared financial commitments, and by extension, the prospects of a robust and prosperous Union.

The EU can not only set a precedent for economic recovery. It can also become the global reference on open, participatory and effective oversight, that safeguards public resources from fraud and corruption.

Signatories:

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Institutul pentru Politici Publice (RO)

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Transparency International Belgium (BE)

Transparency International Bulgaria (BG)

Transparency International Czech Republic (CZ)

Transparency International Denmark (DK)

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Transparency International EU

Transparency International Finland (FI)

Transparency International France (FR)

partners in collaboration with DG REGIO and funded by the European Commission. For more information, please see: <https://www.transparency.org/integritypacts>; https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/integrity-pacts/

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