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Research Article

Financial compliance in Cohesion Policy: how to protect the EU financial interests from domestic fraud

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Abstract

Despite the importance of Cohesion Policy in reducing regional disparities and stimulating economic growth across member states, it has been exposed to compliance challenges. These challenges are evidenced by a higher number of errors and irregularities against other areas of the European Union's budgetary expenditure. Especially fraudulent irregularities may put the EU's financial interests at risk. The question arises, thus, how to protect this EU's largest investment area from fraudulent actions. This article addresses the following research question: How did Member States fight fraud in cohesion policy by taking preventive measures during the period 2014-2020? This contribution takes an exploratory, triangulated approach based on documentary analysis, analysis of a statistical dataset and interviews in the case of two countries, Italy and Slovakia. The findings will first show what measures Italy and Slovakia took to prevent fraud and, second, relate these measures to the countries' performance in the fight against fraud.

Keywords

Cohesion Policy; EU financial interests; Anti-fraud; Financial compliance; Italy; Slovakia

INTRODUCTION

Cohesion policy (CP) is the main European Union (EU) investment policy aiming to reduce economic, social and territorial disparities within and across member states (MS). Despite its crucial role in stimulating regional convergence, competitiveness and cross-border cooperation, CP has faced compliance impediments. These problems are evidenced by a high number of irregularities and errors detected in the three European Structural and Investment (ESI) funds constituting CP: the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF). During the programming period 2007-2013, the European Court of Auditors (2010; 2009; 2008) reported that the number of errors and irregularities in the ESI Funds was higher than in other policy areas of the EU budgetary expenditures. Fraudulent irregularities may imply serious infringements of rules applicable to CP spending. Remarkably, CP constitutes the area of the EU budget mostly affected by compliance issues and fraud (Malan, Chen, Brady, Burillo et al. 2021: 21). Such compliance problems may harm the EU's financial interests, putting the credibility of MSs' investments from the EU budget at risk (Stephenson, Sánchez-Barrueco and Aden 2020; Kuhl 2020).

Protecting the EU's financial interests is a crucial part of the Union's agenda to increase the European citizens' confidence (see European Court of Auditors 2019a). This implies the management of the EU's financial resources in a compliant manner and taking necessary measures, both at the EU and domestic levels, to combine illegal actions, such as fraud, negatively affecting the budget. However, fraud prevention in decentralised, multilevel systems is challenging. The multilevel system, henceforth, shared management, requires articulated and coordinated actions between the European Commission and MSs to guarantee the regularity and legality of the EU expenditures (European Court of Auditors 2019a; 2019b). This challenge is relevant to protect the EU financial interests in MS when complex multilevel governance is implemented, like CP (Dotti 2013; Bachtler and Mendez 2007). The fight against fraud has become crucial for policymakers but theoretically challenging due to cross-country differences regarding administrative and institutional structures, legislative framework, (perceived) corruption levels, political stability and public procurement systems (PWC 2016a; 2016b). In this regard, the question arises regarding the 'most adequate' solutions for addressing compliance issues like fraud in CP spending.

Against this problematic backdrop, this article investigates how MSs fight fraud in CP by taking preventive measures, with specific reference to the programming period 2014-2020. This article seeks to bring both academic and policy contributions. As for the academic relevance, the objective is to contribute to the existing literature on CP and financial compliance by interrogating how MSs have fought domestic fraud in this substantial area of the EU budgetary expenditure. In this regard, the article follows the argument that preventive anti-fraud measures taken domestically facilitate CP expenditures, protecting the EU financial interests (Oroszki 2019). For this purpose, two different cases are compared, Italy and Slovakia, to have a founder and newer MS, a large and a mid-size country, both having significant interregional disparities. Finally, both MSs are beneficiaries of CP and adopted a National Anti-Fraud Strategy. From a policy perspective, this article aims to address and deliver lessons for practitioners. Based on the findings from the two case studies, policy practitioners can see how fraud prevention measures can contribute to improving CP investments. In the programming period 2021-2027, the European Commission reduced the number of guidelines on how to interpret the rules applicable to the ESI Funds. Therefore, the policy messages are meant to help policy-practitioners design adequate anti-fraud preventive measures.

Our paper continues by reviewing by the extant scholarly literature on financial compliance in CP and explaining our contribution to this literature. This review is followed by presenting our analytical framework, case selection and data collection. We present and discuss our empirical findings. Finally, we draw conclusions and provide key policy messages.

FINANCIAL COMPLIANCE IN COHESION POLICY

In CP, financial compliance entails ensuring conformity of spending with EU and national rules. Specifically, compliance involves ensuring correct payments and the imposition of financial corrections to withdraw ineligible expenditures and guarantee efficient management and control systems (Stephenson, Sánchez-Barrueco and Aden 2020; Kuhl 2020). Financial compliance has clear policy relevance, but how to achieve it is still open for debate. Hence, several scholars have investigated this notion to identify the most effective approaches (for example Mendez and Bachtler 2017; Davies and Polverari 2011; Cipriani 2010).

Existing studies have identified several deficiencies in financial compliance in CP related to its shared management system (Stephenson 2015; Stephenson, Sánchez-Barrueco, and Aden 2020; Laffan 2003; Davies and Polverari 2011; Cipriani 2010; Bachtler, Mendez and Miller 2017). Shared management implies the involvement of multiple tiers of government and, for each of them, multiple actors. However, this system is unlikely to guarantee substantial compliance for three main reasons. First, while compliance checks are supposed to fall under MSs' responsibilities, these national actors have incentives to neither devote their resources to controlling Funds expenditure nor to impose financial corrections (Cipriani 2010). Second, the European Commission's compliance powers are limited because of being dependent upon national authorities that are the primary control levels (Kuhl 2020; Davies and Polverari 2011). Third, limited 'hard law' applies to the EU budgetary expenditure (Stephenson, Sánchez-Barrueco and Aden 2020). A meta-reason relates to the so-called 'methodological challenge', i.e. the European Court of Auditors has limited available data for audits, having to rely on lower levels instead of acquiring more supplemental data (Stephenson 2015; Laffan 2003; Davies and Polverari 2011).

Previous studies have identified administrative capacity as the critical factor influencing CP spending (Mendez and Bachtler 2017; Incaltarau, Pascariu and Surubaru 2020; Aivazidou, Cunico and Mollona 2020). In this perspective, administrative capacity is identified as a critical factor for compliant CP expenditures. A relevant aspect emerging from these studies is that 'weak' administrative capacity is not specific to the newer MSs (for example Slovakia, Bulgaria, Romania and Czechia), but it also affects the 'older' ones, such as Greece, Italy and Spain (Verheijen 2007; Terracciano and Graziano 2016; Surubaru 2017; Moreno 2020; Bachtler, Mendez and Oraže 2014). As possible solutions to weak administrative capacity, scholars suggest i) strengthening the management and control systems ('hard' measures) and ii) building the administrative capacities using the technical assistance offered by the European Commission ('soft' measures). By articulating hard and soft measures, MSs can build their administrative capacities to safeguard the EU's financial interests (Stephenson, Sánchez-Barrueco and Aden 2020; Kuhl 2020). In this regard, it must be stressed that financial compliance is a pre-condition for effective spending (Cipriani 2010). Although some anti-fraud measures have been previously discussed, little scholarly work focused on how such measures are implemented, hence how these measures work in practice. This academic gap requires further investigation to identify whether and how MSs have addressed the problem of fraud in CP investments domestically.

This article aims to address this gap in the existing CP literature. Specifically, it investigates two aspects. First, it analyses two different MSs (Italy and Slovakia), reconstructing whether and how frauds were prevented at the domestic level. Second, to relate these measures to financial compliance, this article examines yearly trends in reported irregularities, especially fraudulent ones. The objective is to demonstrate whether the implemented fraud preventive measures contributed to minimising the occurrence of fraudulent irregularities in both countries concerned.

ANALYTICAL FRAMEWORK

This article combines key theoretical approaches from three International Relations theories: rationalism, management and constructivism. These theories differently explain

why states comply (or do not) with international obligations, such as EU Law. Each theory offers different solutions to compliance problems (Versluis 2005).

According to rationalism, non-compliance occurs when compliance costs (material costs) exceed compliance benefits, i.e. the importance of having a 'good' supra-national reputation (Simmons 1998; Chayes and Chayes 1993). Therefore, rationalists rely on enforcement measures, namely the 'naming and shaming' strategy, monitoring and punishing/sanctioning (Simmons 1998; Börzel and Buzogány 2019). As for CP, 'monitoring' is one of the key anti-fraud measures and encompasses systems of financial controls. The 'naming and shaming' strategy is mainly used for late and incorrect transpositions of EU legislation in the area of the internal market rather than in CP (Scholten 2017; Koops 2011). 'Sanctioning' is somewhat limited in CP, considering that only a few cases of criminal sanctions have been imposed, whereas administrative sanctions are not applicable in this policy area (Kuhl 2020: 124-125). As explained earlier, financial corrections shall be imposed if an ineligible expenditure is detected. Since financial corrections imply withdrawing unduly spent expenditure, thus, entailing 'material costs', these measures can be considered rationalist (i.e. punishing) measures. To sum up, 'monitoring' and 'sanctioning' are the most relevant measures selected for our analytical framework.

In contrast to rationalism, the management theory accounts for non-compliance as a consequence, of poor MS capacities, namely financial, administrative or technical ones or rules ambiguity (Hartlapp 2007; Börzel and Buzogány 2019). 'Managerialists' argue that non-compliance should be addressed via rules interpretation, capacity-building measures and financial assistance (i.e. funding) (Versluis and Tarr 2013; Börzel and Buzogány 2019). To address non-compliant actions in CP, administrative capacity-building measures are considered to be the most essential ones (Mendez and Bachtler 2017; Kuhl 2020). Next to the administrative capacity-building measures, rule interpretations via guidelines need to be considered. Notably, guidelines help clarify a broad set of rules applicable to the ESI Funds, such as public procurement, state aid, management and control systems (Cipriani 2010). Guidelines facilitate, thus, proper interpretation and application of these rules, which is crucial for compliant spending of the funds. Regarding financial assistance, for instance, via EU funding, this 'managerialist' measure is not relevant to our analytical framework. This stems from the reason that the objective of this article is not to examine whether EU funding (in our case – the ESI funds), facilitates tackling fraud but what preventive measures were implemented to address the problem of these illegal actions in the CP investments. Therefore, 'administrative capacity-building measures' and 'rules interpretation' are chosen for our analytical framework.

Finally, according to constructivism, non-compliance occurs if EU rules are not perceived domestically as 'natural, rightful, expected and legitimate ones', which follows the 'logic of appropriateness' (March and Olsen 2011). 'Constructivists' advocate for persuasion measures under processes of socialisation, implying a process based on belief in 'moral force' and learning (Finnemore 1993; Checkel 2001). Regarding CP, a specific type of learning, namely policy learning, via peer-to-peer exchanges and networking activities, is observed as an important part of the implementation of the ESI Funds. In other words, this social process facilitates exchanging knowledge and best policy practices between national, regional, and local actors from different EU countries. Moreover, policy learning is considered an essential aspect of financial compliance, thanks to stimulating performance improvement. Therefore, 'policy learning' is selected as the most relevant 'constructivist' measure for the analytical framework.

These theoretical approaches are selected to identify how fraud could be prevented, thus safeguarding financial compliance. Table 1 summarises the analytical framework combining these theories to answer the research question. Thus, we first explore how fraud was prevented domestically and, next, how these actions fit the different approaches.

Table 1. Summary of the analytical framework.

Theory	Definition and possible solutions	Relevance for CP
Rationalism	'Naming and shaming' strategy	No This strategy is mainly used for late or incorrect Directives transposition in Internal Market, not for CP (Scholten 2017; Koops 2011)
	Monitoring/ Controlling	Yes Control mechanisms are one key measure to fight against fraud, encompassing financial controls (Kuhl 2020).
	Punishing	Yes Financial corrections imply withdrawing undue Funds expenditure, thus, entailing 'material costs'.
Management	Capacity-building	Yes Administrative capacity-building measures are the key to preventing fraud (Mendez and Bachtler 2017; Kuhl 2020).
	Rules interpretation	Yes Rules interpretation via guidelines help clarify rules applicable to CP Funds, such as public procurement rules, state aid, and financial controls (Kuhl 2020; Cipriani 2010).
	Funding	No This article does not examine whether CP spending stimulates financial compliance but what measures are relevant to prevent fraud in these Funds and, thus, stimulate better compliance.
Constructivism	Learning	Yes In the CP context, policy learning is an important process facilitating the exchange of policy knowledge and best practices between different Member States' authorities (Sbaraglia 2016; Dotti 2016).

Source: authors' research

CASE SELECTION AND DATA COLLECTION

This article uses a comparative case study encompassing two countries, Italy and Slovakia. The comparative case study makes it possible to benchmark domestic anti-fraud measures instead of focusing on a single country. This will show potential similarities and differences between them in tackling fraud, which allows for answering the research question. The article's objective is to focus on two MSs with different CP traditions as evidenced by i) CP domestic system (i.e. the number of operational programmes and managing authorities), ii) state's contribution to the EU budget, and iii) period of the EU membership. Therefore, Italy and Slovakia represent the most different system design (MDSD). First, Italy has a more complex domestic system of CP management when compared to Slovakia. More specifically, Italy had fifty operational programmes to implement during 2014-2020, whereas Slovakia had only nine. In addition, these two countries differ in the number of regions – Italy has 20 regions ('*regioni*') whereas Slovakia has eight ('*kraje*'). Indeed, this difference further highlights the complexity of implementing the ESI Funds at sub-national levels. Second, although CP plays an essential role in the regional development of both MSs, Italy is one of the main net-contributors to the EU budget, whereas Slovakia is a net beneficiary. Third, these countries followed different parts of the EU's membership, which reflects their different traditions with CP: Italy is a founding member of the EU, while Slovakia is a 'newer' member, among those who joined the EU in 2004.

Despite these differences, Slovakia and Italy are similar in a relevant aspect concerning tackling fraud as both adopted their 2014-2020 National Anti-Fraud Strategy (NAFS). In fact, a NAFS is crucial to protect the EU's financial interests domestically due to facilitating and structuring necessary measures to combat fraud (European Commission 2020a; European Court of Auditors 2019a). Remarkably, not all MSs adopted their NAFS 2014-2020. For instance, all net contributors to the EU budget but France and some of the main beneficiaries of CP funding (Poland, Romania and Spain) (European Commission 2020a: 14) did not adopt NAFS.

Considering these similarities and differences, Italy and Slovakia constitute representative cases for our scope. In principle, France would also fit the selection criteria resembling Italy, but it received less CP funding. Hence, it would be a less representative case to interrogate the implementation of fraud preventive measures.

In terms of temporality, this case study focuses on the programming period 2014-2020. As explained earlier, the preceding period, 2007-2013, was marked by an exceptionally high level of irregularities and errors in CP. MSs were, thus, expected to take necessary measures to reduce the number of infringements in CP spending and protect the EU financial interests from fraudulent actions. The EU legal framework applicable to CP 2014-2020 (i.e. the Common Provision Regulation, CPR) required MSs to 'put in place effective and proportionate anti-fraud measures' (European Commission 2014: 7). Moreover, according to Article 325 TFEU, all MSs must take the necessary measures to combat fraud affecting the EU budget. Therefore, the adoption of NAFS enabled Italy and Slovakia to comply with their obligations stemming from the CPR 2014-2020 and Article 325 TFEU.

Table 2. Summary of case study selection.

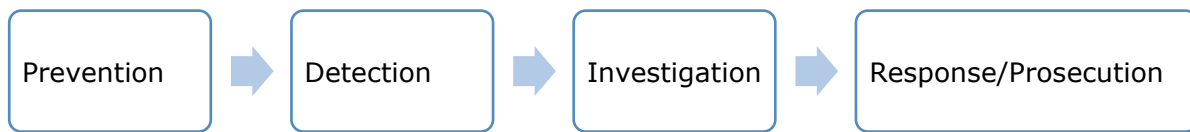
Selection criteria	Italy	Slovakia
Number of Operational Programmes (OP) 2014-2020	50	9
Number of Managing Authorities (MA)	8 national MAs 30 regional MAs	5 national MAs 2 regional MAs
Contribution to the EU budget	Net-contributor	Net-beneficiary
Tradition with cohesion policy (based on EU membership)	Founding Member, since 1958	Since 2004
Adoption and notification National Anti-Fraud Strategy 2014-2020	Yes	Yes

Source: based on authors' research

The article combines qualitative and quantitative methodology. First, it uses a documentary analysis as the primary data source to explore fraud preventive measures taken by Italy and Slovakia. The selected documents encompass the EU sources, such as the Annual reports on protecting the EU's financial interests (PIF) and national documents (i.e. National Anti-Fraud Strategies, NAFS). These findings are triangulated with eight semi-structured interviews with EU Commission officials and national officials from Italy and Slovakia, combining the different viewpoints. The statistical dataset from the PIF Reports is the second main source of information. These reports provide yearly trends of irregularities as reported by Italy and Slovakia to the EU Commission. The analysis of this statistical dataset seeks to assess the MS performances in fraud combat. Particular attention is given to the yearly number of fraudulent irregularities reported. The empirical results of this analysis are presented in the following section.

PROTECTION OF THE EU'S FINANCIAL INTERESTS IN CP VIA TACKLING FRAUD IN ITALY AND SLOVAKIA

Figure 1 presents the four steps of the anti-fraud management cycle (Oroszki 2019). The first step is prevention aiming to mitigate the risk of fraud occurrence. Detection is the second step involving a comprehensive system of checks (for example software or other analytical tools) to discover and disclose fraud (European Court of Auditors 2019b). The third step, investigation, involves criminal and administrative proceedings by competent authorities (i.e. the European Anti-Fraud Office (OLAF) or the national homologues) via scrutinising relevant data and records concerning suspected fraud. Lastly, response, called 'prosecution', involves recovering unduly paid expenditures via the imposition of financial corrections.

Figure 1. Anti-fraud management cycle (Source: Oroszki 2019).

Indeed, administrative procedures within detection, investigation and prosecution may not always successfully prove and recover financial damages caused by fraud (European Commission 2014). Fraud prevention is considered more cost-effective than the following steps of the anti-fraud management cycle (Oroszki 2019; European Commission 2019a). In the case of CP, the 'Anti-Fraud Coordination Service' (AFCOS) plays a crucial role. The AFCOS is a network of national authorities and bodies – judicial as well as administrative ones – designated by each MS. The authorities under the AFCOS are responsible for implementing anti-fraud measures and cooperating between the national government and the OLAF.

Within the programming period 2014-2020, Italy and Slovakia took several measures to minimise the risk of fraud in CP investments. The following subsections present similarities and differences between these two MSs in fraud preventive approaches.

Management and Control Systems of the ESI Funds

Management and control systems of the ESI Funds involve detecting potential cases of fraud via different audit and control activities such as on-spot checks, internal fraud-reporting mechanisms, data analytics and fraud indicators (European Commission 2019a; European Court of Auditors 2019b). Therefore, ensuring efficient management and control systems is essential to minimise the risk of fraud occurrence, along with its damages to the EU's budget (European Commission 2017c; 2014; European Court of Auditors 2019b).

In Italy, the 'Corte dei Conti' (Court of Auditors) regularly conducted compliance audits on the internal management and control systems. The audits' objective was to assess the quality and identify potential weaknesses in these systems (Presidenza del Consiglio dei Ministri 2019; 2018). In this regard, Italy established new eligibility criteria for the ESI Funds management, monitoring and on-spot checks (European Commission 2016a). These criteria supported addressing weaknesses in the internal management and control systems to ensure eligibility of funds expenditure, one of the pre-conditions to prevent fraudulent actions, for instance, documents forgery or manipulation of project costs (European Commission 2016a; Interview 8). Furthermore, the Italian Ministry of Economy and Finance (i.e. the Auditing Authority) took several measures aimed at strengthening the efficiency of the internal management and control systems, encompassing national guidelines, continuous monitoring of the OPs implementation and training activities to upskill the public administrative staff (Presidenza del Consiglio dei Ministri 2017). Notably, these measures were reported as 'relevant' to protect the EU's financial interests from fraud in CP (Presidenza del Consiglio dei Ministri 2020).

In Slovakia, the Ministry of Finance (i.e. the Auditing Authority) carried out annual audits on the internal management and control systems to verify the quality of risk assessment in ESI-funded projects (Government of the Slovak Republic 2015; Interview 4). These systems were regularly adjusted to ensure their compliance with the Common Provision Regulation 2014-2020 and what the government defined as their 'resilience to fraud' (Government of the Slovak Republic 2015; European Commission 2015a). Like Italy, Slovakia established new eligibility criteria for monitoring, on-spot checks and management of the ESI Funds. Importantly, these criteria helped increase the transparency of verification of ESI Funds projects, a crucial element to minimise the risk of fraud.

Summing up, the measures taken by Italy and Slovakia, respectively, to strengthen the ESI Fund's management and control systems fall into different categories in line with the analytical framework. First, regular checks of these systems carried out by Slovak and Italian authorities have controlling objectives, thus, 'rationalist' measures. Second, the aforementioned new eligibility criteria applicable to the programming period 2014-2020 were crucial to increasing transparency of the ESI Funds projects in both countries. Indeed, transparency measures align with the 'management' theory (Versluis 2005; Tallberg 2002).

Training Activities

Training played a crucial role in the case of Italy, upskilling Italian authorities in fraud prevention in CP 2014-2020 (Presidenza del Consiglio dei Ministri 2020; 2019; 2018; 2017). Particularly, Italy focused on the application of EU and national rules applicable to management and controls of the ESI Funds, on the use of Arachne as a software tool for fraud prevention and exchange about the most frequent causes of errors and fraud (Presidenza del Consiglio dei Ministri 2020). Importantly, Italy's training activities involved central, regional and local authorities in charge of the ESI Funds. The participation of these multilevel authorities is essential to maximise the opportunities for exchanging knowledge and best practices in fraud prevention. The collaboration among those different authorities via training activities was observed as a good practice example of the partnership in tackling fraud. Unlike previous findings (Milio 2014; Dąbrowski, Bachtler and Bafoil 2014; Blom-hansen 2005), these actions seem to have had positive effects on the CP principle of partnership. The involvement of central and subnational authorities in joint training activities was identified as a positive element (Presidenza del Consiglio dei Ministri 2020).

Similar to Italy, Slovakia's training activities covered numerous aspects concerning the protection of the EU's financial interests in CP, such as the management and control systems, the most common mistakes in conducting financial controls and audits, and the use of Arachne (Úrad vlády Slovenskej republiky 2020; 2019; 2018; 2016; Interview 4). Moreover, public procurement in ESI Funds expenditure was one of the key thematic areas of the training for Slovak authorities (Government of the Slovak Republic 2015). Notably, a sizeable amount of CP investments is spent via public procurement, an area particularly marked by compliance problems (i.e. errors) (PWC 2016a; 2016b). Therefore, strategic use of public procurement is essential to increase the efficiency of CP investments and ensure compliant spending. More specifically, the training in public procurement implemented by Slovakia covered clarifying the amendments in public procurement law, the most common infringements in this law, and the overall process and control of public procurement procedures in CP investments. Significantly, these public procurement aspects covered the training were reported relevant to minimise the risk of fraud in CP.

The training activities in both countries fall into two types of measures in line with the analytical framework. On the one hand, these activities were 'management' measures because of building the administrative capacity and clarifying the relevant rules applicable to CP investments, such as public procurement, the processes of management and controls. On the other hand, the training activities serve as educational measures by explaining the most common cases of fraud, facilitating the exchange of knowledge and anti-fraud practices among AFCOS' partners in both countries (Úrad vlády Slovenskej republiky 2019; Presidenza del Consiglio dei Ministri 2020). Thus, those training activities stimulated policy learning, which aligns with constructivism.

Peer-To-Peer Networking

In CP, policy learning takes place via peer-to-peer networking measures to share knowledge and best practices in implementing and managing the ESI Funds among central, regional or local authorities (Stephenson, Sánchez-Barrueco and Aden 2020; Sbaraglia 2016). These measures take the form of different networks, for instance 'the three flagship initiatives' offered by DG REGIO to MSs authorities, namely TAIEX PEER-2-PEER, Regio

Community of Practitioners and Training Programmes (Interview 1; 2), as well as cross-country cooperation projects.

For Italy, peer-to-peer networking took place within the international project 'Cooperation in the Anti-Fraud Sector' (see Liberatore, Zedde and Branchi 2017). That project was created for the National Anti-Fraud Committee's (COLAF's) initiative during Italy's Council Presidency in 2014 (Presidenza del Consiglio dei Ministri 2017). That initiative aimed to facilitate 'administrative assistance' among the 16 participating countries to prevent fraud in the ESI Funds. The project activities resulted in identifying major solutions for fraud prevention in the ESI Funds: improving, facilitating, and speeding up the exchange of information across MSs, along with promoting joint actions such as anti-fraud good practices and methods (see Liberatore, Zedde and Branchi 2017). Indeed, the 'Cooperation in the Anti-Fraud Sector' project was recognised as a fundamental step toward protecting the EU's financial interests from fraud in CP. Accordingly, those actions served as a prominent example of peer-to-peer networking. Italy played a leading role by creating room for cooperation and mutual learning between the partner countries.

Between 2015 and 2020, Slovakia used three TAIEX REGIO PEER 2 PEER exchanges to upgrade their administrative capacities in CP related to tackling fraud. The exchanges took place in two workshops and one experts' mission, two forms of this Commission's flagship initiative (PPMI Group 2021; Interview 2). First, the expert mission in 2015 involved a three-day visit by the Portuguese Auditing Authority to Bratislava to provide Slovak authorities with to share best practices in public procurement (European Commission 2015b). Second, in 2017, Slovak authorities participated in the Simplified Cost Options (SCOs) working group under the ERDF framework. Remarkably, the SCOs, one of the most crucial simplification measures to reduce administrative burden and the risk of errors, had been used widely by Slovakia (European Commission 2017a). That TAIEX PEER 2 PEER workshop enabled, thus, the Slovak authorities to learn how to use the SCOs in CP investments to prevent compliance-related mistakes. Third, in 2020, the Slovak authorities participated in a multi-country workshop on the conflict of interests in the ESI Funds, a critical area to combat fraud affecting the EU's financial interests (European Commission 2019a; 2018). That workshop provided the Slovak authorities with knowledge on how to tackle conflict of interests and how to amend national legislation simplifying its existing methodological framework (European Commission 2020b; Interview 4). Finally, TAIEX REGIO PEER TO PEER exchanges taken by Slovakia supported its national authorities in three relevant areas related to fraud prevention, public procurement, the use of SCOs, and the conflict of interests. Indeed, TAIEX PEER 2 PEER serves as a crucial tool for administrative capacity-building in CP (Interview 1). As stressed by some respondents from the DG REGIO's side, TAIEX REGIO PEER 2 PEER actions 'help to address problems on the ground' by 'creating a space for the exchange of knowledge and best practices' (Interview 1; 2). Thus, as demonstrated in the Slovak case, such exchanges serve as good practice examples of policy learning measures to tackle fraud.

Summing up, the peer-to-peer networking activities taken by Italy and Slovakia constitute two measures in line with the analytical framework. First, those networking activities facilitated knowledge sharing and good practices in fraud prevention, thus, policy learning. Second, policy learning via peer-to-peer networking actions stimulated the administrative capacity-building of Italian and Slovak authorities. Therefore, those actions serve as both 'management' and 'constructivist' measures.

Legislative Measures

In the CP context, the primary objective of legislative measures, such as regulations, guidelines and national anti-corruption programmes, is to streamline rules and responsibilities for implementing, managing and controlling the ESI Funds (European Commission 2020a; 2015a). Indeed, national legislative measures are essential elements in protecting the EU's financial interests.

In Italy, COLAF adopted 'strategic guidelines' to disseminate relevant fraud preventive measures, such as training, efficient systems of management and control of the ESI Funds (Presidenza del Consiglio dei Ministri 2019; 2018). Those guidelines were directed to central, regional and local authorities to facilitate cooperation between them in fraud prevention (see Interview 7). Notably, the Italian guidelines had a policy learning purpose in tackling fraud. Put differently, the COLAF's guidelines supported the Italian authorities 'to learn', providing anti-fraud approaches and avoiding fraud-related mistakes in CP expenditures. However, Italy used its only internal guidelines to clarify the relevant definitions related to protecting the EU's financial interests (see also Presidenza del Consiglio dei Ministri 2020). Nevertheless, Italy reported not using guidelines issued by the European Commission (European Commission 2015a). Remarkably, eight MSs, including Italy, used only their internal guidelines, whereas 13 used both the Commission's and their internal ones. As emphasised by the respondents from OLAF, MSs should use their internal guidelines and the Commission's guidelines in a complementary manner to get a comprehensive clarification of relevant rules and terms concerning fraud combat (Interview 3; 7).

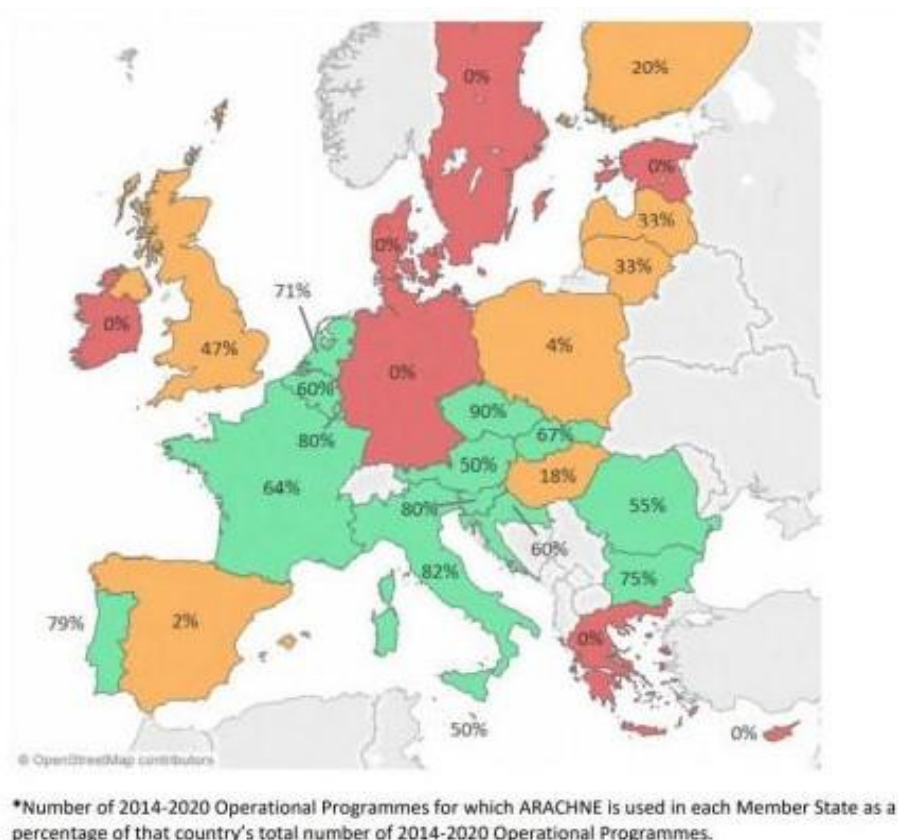
Slovakia amended its national legislation on financial controls and internal auditing of the ESI Funds (Act No. 502/2001) to enforce national rules with the CPR 2014-2020 (European Commission 2015a: 46). Owing to increasing transparency and restricting the scope of abuse of the funds, that Act amendment served as a relevant legislative measure to minimise the risk of fraud in CP investments (see also Government of the Slovak Republic 2015). Moreover, in 2019, the Slovak Ministry of Finance issued novel methodological guidelines on financial controls and audits of the ESI Funds encompassing public procurement, conflict of interests and financial frauds (European Commission 2020a: 18-19). Those guidelines clarified and consolidated the controls and auditing procedures applicable to the period 2014-2020 (Úrad vlády Slovenskej republiky 2020). Like Italy, Slovakia used its internal (i.e. national) guidelines to complement those issued by the EU Commission, clarifying the interpretation of important terms related to the protection of the EU financial interests (for example fraud, suspected fraud, irregularity, AFCOS' responsibilities). Notably, the guidelines used by Slovakia were confirmed to constitute 'the basis of successful prevention of fraud and irregularities' in CP investments (European Commission 2020a: 18).

The legislative measures implemented by Italy and Slovakia serve as three types of measures in line with the analytical framework. First, the amendment of the Slovak Act No 502/2001 serves as a 'rationalist' measure due to enforcing the relevant rules applicable to CP 2014-2020. Second, the guidelines used by both countries constitute 'management' measures because of clarifying the relevant CP rules. Third, the 'strategic guidelines' issued by Italian COLAF stimulated policy learning, which fits constructivism.

Arachne

Arachne is an integrated IT analytical tool for data mining and data enrichment developed by the European Commission and offered to MSs free of charge (European Court of Auditors 2019a; Interview 3). More specifically, it serves as a risk-scoring tool supporting MSs' authorities in their administrative controls, checks and verifications of CP projects via identifying risk-based information on project beneficiaries, contractors and sub-contractors (European Commission 2016b, Interview 3). Although the Commission issues information on Arachne available to all MSs, this tool is voluntary because of no legal obligation to enforce it. Remarkably, during the programming period 2014-2020, Arachne was divergently used across the EU countries. For instance, Germany, Greece and Ireland did not implement this tool in their operational programmes, while Hungary, Poland and Spain used it only partially (see Figure 2).

Figure 2. The use of Arachne in the number of OPs 2014-2020 (Source: European Court of Auditors 2019a).



As shown in Figure 2, both Italy and Slovakia belonged to the best-performing MSs concerning the use of Arachne in their OPs implementation. The training activities implemented by both countries supported their authorities by upskilling them in the use of this tool (Úrad vlády Slovenskej republiky 2020; Presidenza del Consiglio dei Ministri 2020; Malan et al. 2021). As respondents from the EU Commission's side explained, Arachne facilitates MSs to prevent fraudulent use of the ESI Funds, which can be, consequently, depicted by errors and fraudulent irregularities concerning projects, beneficiaries, contractors and sub-contracts (Interview 3; 5; 7). Indeed, Arachne is considered one of the essential measures supporting fraud prevention in CP investments (European Commission 2019a; 2016b; Interview 3; 5; 7). According to the interviewees, the EU Commission actively supports and recommends using this tool via issuing guidelines and organising training sessions and bilateral meetings with MSs' authorities. Nevertheless, MSs, in general, 'roughly follow' these recommendations (Interview 3). Therefore, in this perspective, Italy and Slovakia can be seen as positive exceptions, using Arachne to minimise the risk of fraud in their OPs 2014-2020.

Arachne's role can be considered a tool as a 'rationalist' measure. Such a categorisation of Arachne into the analytical framework stems from its 'controlling objective' – supporting administrative controls, checks and management of the ESI Funds projects.

ASSESSMENT OF ITALY AND SLOVAKIA'S PERFORMANCES IN TACKLING FRAUD

As summarised in Table 3, the fraud preventive measures taken by Italy and Slovakia constitute different anti-fraud approaches in line with the analytical framework. Notably, some of those measures fit more than one theory as this can be conceptualised from different angles. For instance, the measures taken by the Italian Ministry of Economy and Finance had different purposes: training sessions to upskill the Italian authorities (i.e. administrative capacity-building), controlling the OPs implementation (i.e. monitoring),

and guidelines (i.e. rules interpretation). All these actions had the overarching objective of strengthening the internal, multilevel system for managing and controlling CP expenditures. Similar 'spillover effects' were observed in the TAIEX REGIO PEER 2 PEER exchanges used by Slovakia. These exchanges facilitated policy learning stimulating administrative capacity for the Slovak authorities.

Compared with some previous EU law compliance research (Versluis 2005; Versluis and Tarr 2013; Tallberg 2002; Hartlapp 2007), this analysis shows that guidelines go beyond a 'management' perspective to address compliance problems. Guidelines may have three purposes for fraud prevention: rules enforcement, interpretation and learning. As a result, these empirical findings showed that guidelines might also constitute 'rationalist' or 'constructivist' measures. Along these lines, this article found that training fits with the management theory (see also Börzel and Buzogány 2019) and constructivism because of supporting rules interpretation. Lastly, neither Italy nor Slovakia was found to have taken 'punishing' measures (i.e. financial corrections). This finding can be explained by the embedment of financial corrections in the anti-fraud management cycle. Put differently, the imposition of financial corrections does not fall into the preventive but the last step of this cycle (Oroszki 2019).

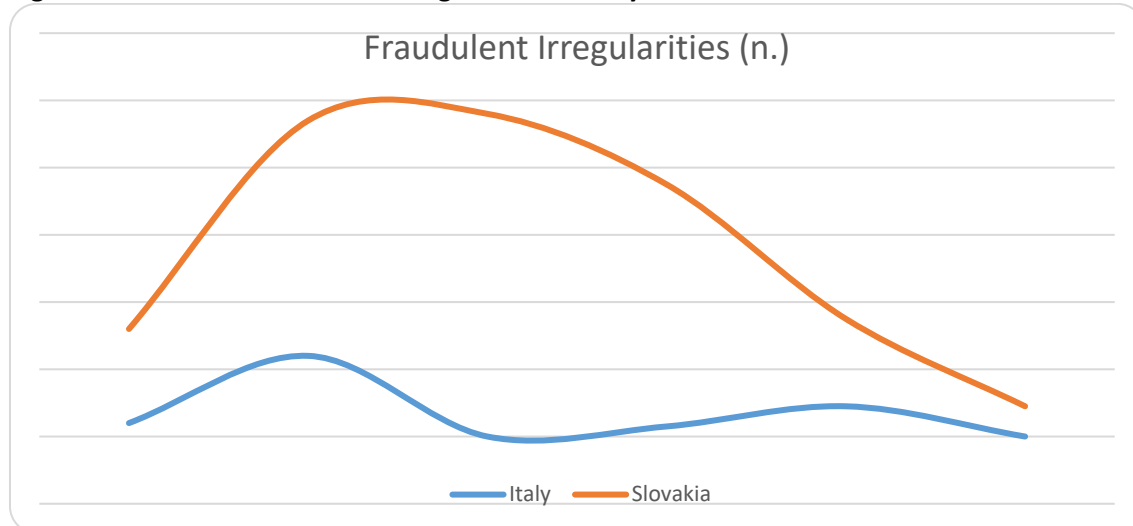
Table 3. Summary of fraud preventive measures: Italy-Slovakia benchmark.

Anti-fraud preventive measure	Measure type for Italy	Measure type for Slovakia
Checks and adjustments of the internal systems of management and controls	Rationalism	Rationalism
Trainings	Management Constructivism	Management Constructivism
International project 'Cooperation in the Anti-Fraud Sector'	Constructivism	n/a
TAIEX REGIO PEER 2 PEER exchanges	n/a	Constructivism Management
Guidelines	Management Constructivism	Management Rationalism
Arachne	Rationalism	Rationalism

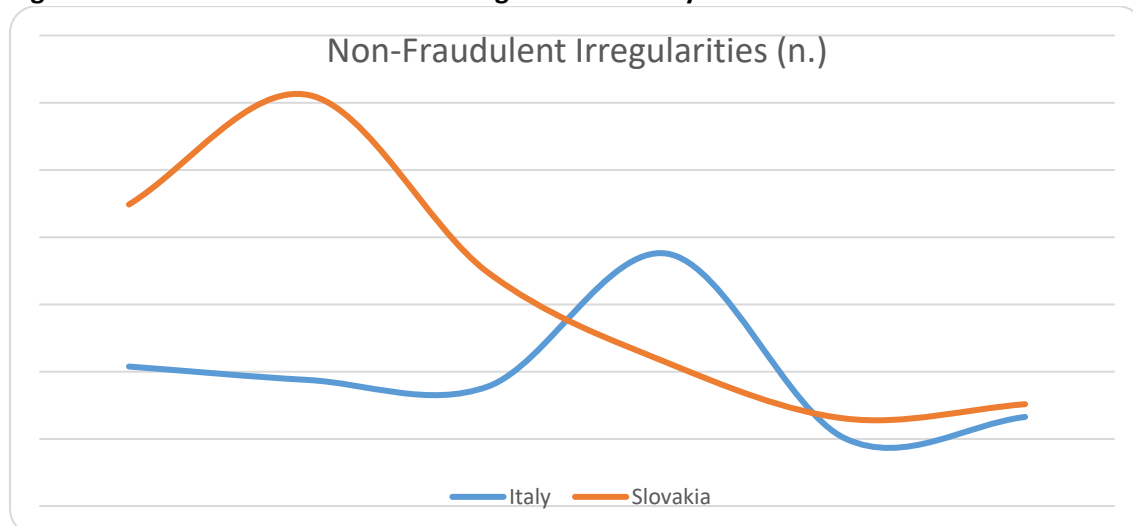
Finally, the analysis is completed by examining the fraud cases reported in Italy and Slovakia. Figures 3 and 4 below present the overview of yearly trends of fraudulent and non-fraudulent irregularities detected and reported by each country. Based on the data presented, some observations must be considered. First, these findings align with existing scholarly arguments: not every irregularity is a fraud (Stephenson, Sánchez-Barrueco and Aden 2020; Cipriani 2010). Indeed, as far as Italy and Slovakia are concerned, most irregularities reported were non-fraudulent ones.

Regarding the trends in fraudulent irregularities, Italy and Slovakia had strong, different patterns despite fluctuations. More specifically, Slovakia had a higher number of fraudulent irregularities than Italy, which was at its peak in 2016. However, both countries had the lowest number of fraudulent irregularities in 2019, towards the end of the programming period. In this regard, the link with implementing fraud preventive measures is observable. As shown by the empirical findings in the previous section, the anti-fraud measures had different timing for their implementation. In other words, some of those measures were implemented more regularly, such as training activities and checks of the internal management and control systems. In contrast, others are less regular, such as peer-to-peer networking. Thus, their effects were prolonged.

Some comparative points on fraud prevention strategies implemented by Italy and Slovakia can be drawn. First, both countries implemented training activities for their national authorities to improve their administrative capacities. Second, both MSs used Arachne to a large extent in their OPs. Third, the Auditing Authorities of both countries audited the internal systems of management and control of the ESI Funds regularly. Finally, both MSs established new eligibility criteria to increase the Funds expenditure verification.

Figure 3. Number of fraudulent irregularities in Italy and Slovakia

Source: European Commission 2015a; 2016a; 2017b; 2018; 2019b; 2020a.

Figure 4. Number of non-fraudulent irregularities in Italy and Slovakia

Source: European Commission 2015a; 2016a; 2017b; 2018; 2019b; 2020a.

On the other hand, Italy and Slovakia showed some differences. First, they used different peer-to-peer networking measures: Italy led the cross-country project 'Cooperation in the Anti-Fraud Sector', whereas Slovakia used the three TAIEX PEER 2 PEER exchanges. Second, although both countries used their internal guidelines, only Slovakia completed them with the European Commission guidelines. In addition, the internal guidelines used by Italy and Slovakia had different purposes in line with the analytical framework. Italian guidelines had learning and clarification purposes, whereas Slovak ones were meant to enforce and clarify the CP rules. Lastly, the Italian authorities demonstrated a more transparent partnership for multilevel cooperation in fraud prevention than the Slovak ones, as evidenced by the training activities.

CONCLUSIONS

'Zero tolerance policy' applies to fraud affecting the EU budget (Kuhl 2020). Therefore, the fight against fraud is critical to protect the EU's financial interests, providing credibility and added value to EU-funded investments. In this regard, fraud prevention is essential to minimise the risk of potential damages to the EU budgetary resources. Within this context, this article investigated how two different MSs, Italy and Slovakia, fought fraud, via preventive measures, in CP investments. Empirical findings show that Italy and Slovakia

had both similarities and differences in their domestic anti-fraud measures. Notably, as demonstrated by numerous training activities guidelines, both countries took 'soft approaches' to clarify the relevant CP rules.

For policy practitioners, this article delivers some lessons. First, as our analysis showed, the domestic system of CP differs per country, which is determined, for instance, by the number of regions, the number of Operational Programmes, financial allocations, the division of responsibilities between national and sub-national authorities, and legal framework. These differences reflect on the fraud preventive measures since they have to be adjusted to 'the needs on the ground', i.e. the domestic circumstances of each MS. Therefore, the design of measures for tackling fraud should be aware that 'no-size-fits-all'. Second, the partnership principle serves as the guiding principle of CP. Thus, the active engagement of local and regional authorities and stakeholders in all stages of the CP 'life cycle' is crucial, from programming to evaluation. In line with this principle, different domestic actors, encompassing AFCOs partners, CP Funds beneficiaries and relevant stakeholders, should be involved in fighting fraud. Stakeholder involvement allows for exchanging information about good policy practices, which facilitates preventing fraud. Our findings show that peer-to-peer networking measures are important measures facilitating good practices of how to prevent fraud. Peer-to-peer should take place both domestically (among policy practitioners from different tiers of government) and among different MSs. Third, all EU countries must take an integrated approach, such as Arachne. The use of this IT analytical tool appears considerably diverse across MSs, as it is a voluntary instrument. Nonetheless, it does provide benefits for the users if integrated with the other factors. Therefore, for the next CP programming period, DG-REGIO and OLAF should ensure a more integrated approach to this tool in the Common Provision Regulation (CPR).

Finally, regarding the main limitations, this article focused on just two MSs, which were at the forefront of anti-fraud measures because of the adoption of the NAFS respectively. The question may arise about how other countries performed in fraud combat, especially among the primary CP beneficiaries, such as Poland and Spain. Second, the multiple checks and controls under the shared management undermine the possibility of conducting a proper statistical assessment. Therefore, more indicators might be used for a more detailed analysis. Indeed, this would require cautious assumptions to avoid the risk of drawing results on spurious correlations. Nonetheless, considering both qualitative and quantitative data presented, this article showed that both Italy and Slovakia could reduce the number of regularities by improving their financial compliance, thereby safeguarding the EU financial interests domestically. Lastly, the analysis did not cover the data on irregularities between 2019-2020. It stems from the reason that while the research for this article was carried out, the data from those three years had not been published yet.

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