

# 32nd Annual PIF Report



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European Law Forum: Prevention • Investigation • Prosecution

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## News

On 20 September 2021, the European Commission released the **32nd annual report on the protection of the EU's financial interests**. It gives an overview of the main developments in 2020 on the EU's legislative, practical, and cooperation framework to fight fraud affecting the EU budget. In addition, the report addresses the irregularities and fraud reported in 2020 (both for revenue and for expenditure) and their related risks. The risks analysis includes risks that emerged with the onset of the COVID-19 pandemic and risks in relation to the new Recovery and Resilience Facility (RRF), which will pour a huge amount of money into the Member States in order to mitigate the consequences of the pandemic (→ [eucri](#)m 3/2020, 174). The report also describes the tools available to strengthen the fight against fraud, such as ARACHNE and the Early Detection and Exclusion System (EDES). It focuses on initiatives adopted, implemented, or ongoing in 2020, e.g., the Commission's Anti-Fraud Strategy (CAFS) and the rule-of-law conditionality mechanism (→ [eucri](#)m 1/2019, 15 and [eucri](#)m 3/2020, 174-176).

The report highlights the following key events protecting the EU taxpayers' money in 2020 and the first half of 2021:

- Start of operations by the EPPO;
- Revised OLAF Regulation, which makes the office fit for cooperation with the EPPO and strengthens its investigative powers;
- Introduction of the "conditionality regime," which allows the EU to react to breaches of the rule of law affecting the EU's financial interests;
- Notable achievements as regards implementation of the Commission's new Anti-Fraud Strategy (two thirds of the planned actions already implemented and the remaining third ongoing).

In total, 1056 fraudulent irregularities were reported in 2020. They had a financial impact of approx. €371 million, a 20% decrease compared to 2019.

Regarding fraud and irregularities in *revenue* reported by the EU Member States, the PIF report found the following:

- The number of reported cases on both fraudulent and non-fraudulent irregularities declined in 2020 compared to the five-year average (2016-2020);
- The corresponding financial sum increased for fraudulent irregularities but decreased for non-fraudulent irregularities;
- Although some Member States have been impacted by COVID-19 harder than others, the figures for the cases reported as fraudulent and non-fraudulent remain within the usual annual range; this leads to the conclusion that the COVID-19 pandemic had less of an effect than anticipated in 2020;

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Published in  
2021, Vol. 16(3) [eucri](#)m pp 149  
– 151

ISSN: 1862-6947



- Most cases reported as fraudulent or non-fraudulent in 2020, affecting EU revenue, relate to under-valuation, incorrect classification/false description of goods, and smuggling;
- Footwear, textiles, vehicles, and electrical machinery and equipment were the types of goods most frequently affected by fraud and irregularities as regards number of cases and in monetary terms.

Regarding fraud and irregularities in *expenditure*, the report shows a varying picture - depending on the budgetary sector:

- The number of fraudulent and non-fraudulent irregularities with regard to agricultural spending increased 5% in 2020, compared to the five-year average (2016-2020);
- The financial amount linked to fraudulent irregularities in agriculture decreased 37%, the sum linked to non-fraudulent irregularities decreased by 5%;
- The most frequently detected irregularities in the agriculture sector concern falsification of documents, creation of artificial conditions, and incomplete implementation of the action;
- Spending for cohesion policy saw a 34% decrease in the number of fraudulent and non-fraudulent irregularities in 2020 compared to the five-year average (2016-2020);
- The financial amounts linked to fraudulent irregularities in cohesion policy decreased 37%, the sum linked to non-fraudulent irregularities decreased by even 42%.

Since not all drops in the figures for expenditure can be explained by cyclical effects, the Commission has expressed concern over detection and reporting rates. In this context, the Commission also points out that Member State authorities have had to cope with new risks. These new risks are linked, for instance, to new ways of managing and spending EU funds as well as reinforced spending in new areas like the European Green Deal, digital transition, and health care.

In order to cope with the new risks and new ways of managing EU funds, an ever closer and more effective cooperation between the EU bodies (EPPO, OLAF, Europol, and Eurojust) and national authorities is needed. Management of the RRF and spending programmes in the 2021-2027 multi-annual financial framework call for a renewed and joint European vision to fight fraud, corruption, and other illegal activities affecting the EU's financial interests. The Commission considers the following elements important to achieve this vision:

- More efficient collection and use of data;
- Improved transparency for beneficiaries of public funding;
- Better anti-fraud strategies at the Member State level;
- Increased cooperation within national authorities, between EU Member States and at the European level.

Lastly, the 32nd annual PIF report includes several recommendations on the future protection of the EU's financial interests:

For *revenue*:

- Member States should assess the risks and shortcomings of their national customs control strategies as revealed during the COVID-19 pandemic, and they should report lessons learned and remedial measures taken;
- Member States should also establish catch-up plans for carrying out appropriate customs checks.

For *expenditure*:

- If not already being carried out, EU Member States are invited to launch targeted risk management exercises linked to the impact of COVID-19 and the upcoming implementation of the RRF;

- The quality and reliability of data must be improved;
- All EU Member States should make use of the integrated and interoperable information and monitoring system that the Commission will make available in conjunction with the RRF and the EU budget.

In general, the Commission recommends that EU Member States that have not yet joined the EPPO should consider doing so. Furthermore, Member States should adopt national anti-fraud strategies or adapt them, in order to cope with the significant new risks.

The 32nd annual PIF report includes the following documents:

- Figures on Member States' reported (fraudulent and non-fraudulent) irregularities ([Annexes I and II](#));
- Overview of [implementation of the Hercule III Programme](#) in 2020;
- [Activity report by the EDES panel](#);
- A detailed report on [follow-up by Member States](#) in response to recommendations in the 2019 PIF report;
- Report on measures taken by the EU Member States to [implement Art. 325 TFEU](#) in 2020;
- Overview of actions taken to [implement the Commission's Anti-Fraud Strategy \(CAFS\)](#) – state of play in June 2021;
- [Statistical evaluation](#) of irregularities reported in 2020: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure (two parts).

The annual report will be discussed in the European Parliament, which will issue a resolution on the situation of the protection of the EU's financial interests and likely make further follow-up recommendations. For the 2019 annual report → [eucrim 3/2020, 172-173](#).

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The project is co-financed by the [Union Anti-Fraud Programme \(UAFP\)](#), managed by the [European Anti-Fraud Office \(OLAF\)](#).



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the European Union**