BUDAPEST INSTITUTE
Budapest Institute for Policy Analysis · bpinst.eu
Dohány utca 84, Budapest 1074, Hungary

THE IMPACT OF COHESION POLICY ON CORRUPTION AND POLITICAL FAVOURITISM

Study for the Greens/EFA Group – European Parliament

August 31 2016

Anita Győrfi, Tamás Molnár, Petra Reszkető, Balázs Váradi

POLICY ON CORRUPTION AND POLITICAL FAVOURITISM

Abstract

Cohesion Policy funds are targeted at 34% of EU citizens; their declared goal is to reduce regional disparities in development. In fact, as shown by research done by political scientists and economists, their effects are mixed and hard to measure, and are the result of bargaining and pork-barrel politics. They also contribute to many kinds of waste, corruption and political favouritism in the target countries which we illustrate in a dozen cases. Finally, we formulate tentative proposals to improve European cohesion policy from the Greens perspective.

Authors:

Anita Győrfi, Tamás Molnár, Petra Edina Reszkető and Balázs Váradi

CONTENTS

Executive summary

In this short study we strive to take stock of the most relevant **empirical evidence for systemic corruption** and political favouritism **in the distribution of cohesion policy funds**, and suggest **policy directions** to improve the situation.

Cohesion Policy funds are targeted at 34% of EU citizens and amount to 0.36% of the EU Gross National Income. Through them, **member states like Hungary and Poland received 2.3% and 2.1%, respectively, of their GNI.**

The **declared goal** of European **cohesion policy** in general **is** to reduce regional disparities in development, to "invest in people" in less developed regions of the Union, **to reduce economic and social disparities,** and to promote sustainable development, with a focus on the environment and public infrastructure Europe-wide.

Political Scientists, however, do not take these goals at face value. They **show** that the conditions and sums of the transfers between the EU budget and the budgets of the targeted MSs are the outcome of negotiations between powerful political actors, such as national governments that act as gatekeepers between domestic and supranational actors. Despite the development of a data-based policy framework, **bargaining and pork-barrel politics account for decisions on which MSs are funded and how much they receive from the common budget** as much as lofty goals.

Efforts to measure the effects of cohesion policy on the economic development of the regions and countries which receive funds **are beset with methodological difficulties**.

Political economy literature on the welfare effects of international development **aid** in general and literature that discusses the effects of structural funds in Europe in particular is also mixed, but it **points out a number of dangers** in such policies, **the severity of which depends on the local policy context and political institutions. These range from "aid dependence" to rent-seeking, and from shifting priorities to corruption.**

Indeed, **corruption is one of the channels** through which an international aid mechanism, or, in this case, cohesion policy, can end up yielding less social welfare than expected, and even, effectively, doing harm. Corruption is most likely to arise in the presence of discretionary decision making, where resources are transferred without accountability to the decision-maker. Member States receiving the windfall of Structural Funds are thus very much at risk. Findings of researchers, OLAF and anti-corruption NGOs prove that **corruption affecting European funds creates very real peril**.

When it comes to the use of structural funds in less developed member states, **corruption can affect** the political and bureaucratic process related to **cohesion policy at many points**, **from the setting of development goals, through project selection and the public procurement process** all the way **to the spending of funds**. While a few **egregious cases of political corruption/favouritism, corruption through anonymous ownership, corruption by way of state-owned enterprises, bribery, fraud and embezzlement** are well documented by OLAF and/or investigative journalism, **the general extent of the problem is** very **hard to assess**.

Although **data quality**, timeliness, and availability **leave quite a bit to be desired**, especially where reliable quantitative programme evaluations are concerned, **we do not think that this is a serious bottleneck** when considering improving EU-wide cohesion policy.

What is to be done? We argue that the Greens could consider a political push in the direction of several of the following goals simultaneously (as they are designed to strengthen each other):

- **Raising awareness** for the issue both in recipient and developed MSs, as well as relying on cooperation with civil watchdogs and NGOs in monitoring and evaluating the use of Structural Funds,
- **Improvement of** honest EU-wide **evaluation, feedback and learning mechanisms** concerning the past effects and side-effects of spending Structural Funds.
- Tackling geographical asymmetries in other parts of the EU budget (e.g. research funding),
- **Trying to** sidestep, as much as possible, MS governments and **directly targeting local actors: local governments or NGOs**,
- **Building more result-based conditionality** in the EC-MS institutional-contractual relationship,
- **More frequent and thorough democratic scrutiny** of the implementation of all stated goals of cohesion policy should be exercised **by the European Parliament** through its supervisory capacity.

We also argue that serious **consideration might be given to a scheme to redirect some of the cohesion fund resources to provide a Europe-wide social safety net to the materially most deprived citizens in Europe**, uniformly defined. If we were to use a universal threshold of poverty that is independent of the average or median income of the country of residence, such a scheme would automatically target the less developed member states. Such an arrangement could directly address poverty, and might strengthen all-European identity and support for the European project in general from the less well-off. Thus it might garner democratic support within the target countries, especially by political forces on the left.

Before advancing any of these policy alternatives, however, **further research** will be needed.

1. Introduction

The main objective of this preliminary study (produced by the Budapest Institute for Policy Analysis for the Greens/EFA Group in the European Parliament (EP) in the period December 2015 - May 2016) is, without striving for comprehensiveness, to take stock of the empirical evidence on systemic corruption and political favouritism in the distribution of cohesion policy funds, to estimate the extent and significance of the problem, to suggest policy directions that address the problems identified, and to recommend directions for further research necessary to establish a firm and empirically well-supported understanding of the phenomena.[1]

In what follows we first review the subject: the extent of cohesion policy, its stated goals and the insights that political science offers on how it is determined at the European level (section 2). In section 3, we analyse the effects of the funds in question on the recipient member states, drawing on macroeconomic models as well as theory and evidence on the effects of such funds in international development in general and within Europe in particular. We devote a separate subsection to the main types of corruption that occur in relation to such transfers, with a table of illustrative cases, as well as to considerations on the extent of the problem. In section 4, we review whether data availability is a burning issue, sketch directions for incremental improvement and a policy alternative that Greens/EFA Group might want to advocate with respect to this crucial European topic, and point at directions for further research.

2. Structural and Cohesion Funds (Cohesion Policy)

2.1. Institutional and quantitative summary

Cohesion policy consists of all programmes financed by Structural Funds (European Regional Development Fund (ERDF) and European Social Fund (ESF)) and the Cohesion Fund (CF). Structural Funds are intended for regions whose GDP per capita in PPP terms is below 75% of the EU average and Cohesion Funds are for countries whose GDP per head in PPP is below 90% of the EU average. For simplicity's sake, we will use "Structural Funds / SF" as an overarching category, and refer to Cohesion Funds under the same label in this report[2].

Origins of the ERDF and ESF can be traced back to the Treaty of Rome, but a common policy to further economic and social cohesion was established only at the end of the 1980s. As part of this, the Maastricht Treaty established a new instrument, the Cohesion Fund, which was adopted for the period 1994-1999. In May 2004, the largest-ever enlargement of the EU increased the disparities in income and employment across the EU, since the average GDP per head in the new Member States (henceforth referred to as MSs) in PPP terms was less than half of the former average (European Commission 2014).

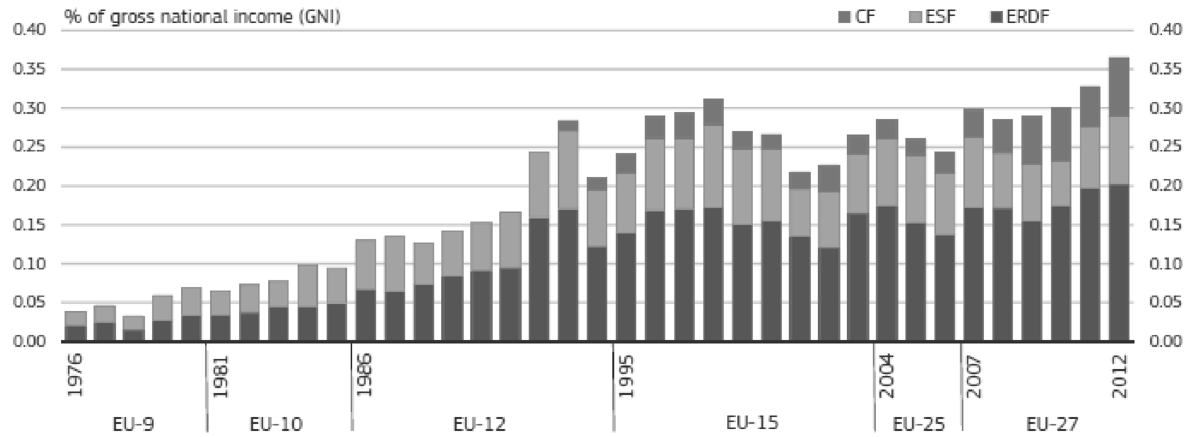
The population of countries entitled to all three funds increased from 25% to 34% of EU citizens with the enlargement in 2004; convergence in GDP per head to the EU average has led to a decrease in this proportion to 25% for the 2014-2020 period. (European Commission 2014; Katsarova 2013)

[1] We thank Lisa Qian for proofreading this report.

[2] Not to burden the reader with excess terminology, for concepts that changed names from programming period to programming period, we used the terms of the 2007-13 one, while the studies quoted below necessarily cover earlier periods, too.

Cohesion policy expenditures rose continuously from 1976 on, and by 2012, transfers reached 0.36% of EU Gross National Income (GNI). Figure 1 shows the yearly cohesion policy expenditure in proportion of EU GNI.

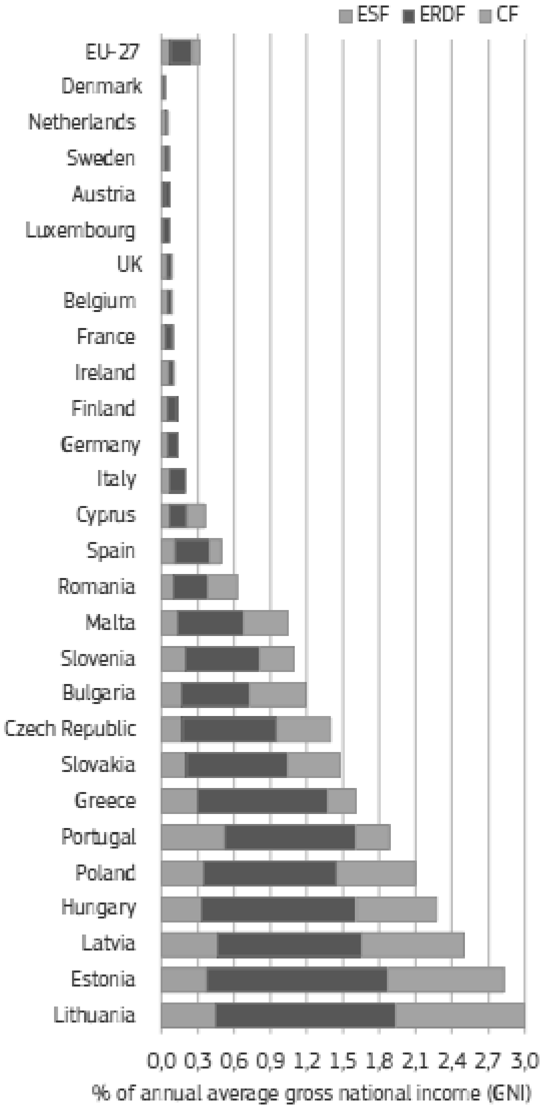
Figure 1: Cohesion policy expenditure, 1976-2012



Source: DG BUDG, AMECO, DG REGIO calculation. (European Commission 2014, p. 180)

Between 2007 and 2012, in terms of expenditure per country, the three Baltic States amounted to between 2.5% and 3% p.a., while Hungary and Poland received 2.3% and 2.1% of their Gross National Income (GNI), respectively. In the EU15, with the exception of Portugal, Greece and Spain, cohesion policy expenditure represented between 0.03% and 0.2 % of annual GNI (European Commission 2014, p. 182). Figure 2 represents the country level cohesion policy transfers in percentage of national GNI from MSs for period 2007-2012.

Figure 2: Cohesion policy expenditure 2007-2012



Source: DG BUDG, AMECO, DG REGIO calculations. In: (European Commission 2014, p. 181)

Since 1988, four key principles are claimed to guide EU Cohesion policy: 1. funds are targeted at the least developed regions (*concentration*), 2. regional and local authorities are claimed to be involved in the planning, implementation and monitoring phases (*partnership*), 3. priorities are fixed for seven-year periods (*programming*), and 4. financing through the Structural Funds is intended to complement national investments in the same fields (*additionality*). (Katsarova 2013)

The priorities of Cohesion policy are selected and agreed upon in a process of consultation between the Commission and each MS. The programmes are designed and implemented in a shared management system between the European Commission (EC) and the MS. Each MS produces a partnership agreement, which outlines the country's strategy and proposes a list of operational programmes (OP), which are validated by the EC and, upon approval, implemented by MS authorities. The budget and rules of Structural Funds are decided jointly by the Council and EP based on a proposal from the EC. Transfers received by the MSs are required to be spent by the end of the second year after their allocation (known as the N+2 rule). The EC (and society at large) monitors each OP by national monitoring committees in which the Commission, subnational authorities and interest organisations are represented. (Katsarova 2013)

EU co-financing rates are set on the basis of the MS's relative level of development, according to the following three objectives:

- the **'Convergence objective'** aims to improve growth and employment conditions to further the convergence of the least developed countries The EU co-financing rate for this objective amounts to 75% to 85% of projects for the ERDF and the ESF and to 85% for the Cohesion Fund;
- the **'Regional competitiveness and employment objective'** intends to promote innovation, entrepreneurship and environmental protection. Under this objective projects for ERDF or ESF can receive co-financing of 50% to 85%;
- the **'European territorial cooperation objective'** aims to increase cooperation at trans-national and inter-regional levels in the fields of urban, rural and coastal development. The EU co-financing rate for this objective for ERDF projects amounts to 75%. (Katsarova 2013)

2.2. The (stated) goals and political causes of disbursing such funds

The declared goal of European cohesion policy in general is **to reduce regional disparities in development**, especially with regard to unemployment and technology, but also includes innovation, education levels, environmental quality and poverty within the Union.

The European Regional Development Fund aims to strengthen economic and social cohesion in the European Union by "**correcting imbalances between regions**," while a certain percentage of resources (the higher the percentage, the more developed the target region) is labelled to be spent on EU priorities (like innovation, the digital agenda, small firms or the low-carbon economy, or sustainable urban environments) ("European Regional Development Fund" 2016).

The European Social Fund claims that it **"invests in people" in the less developed regions of the Union**, with a focus on improving employment and education opportunities, especially for the most vulnerable people at risk of poverty. ESF also funds the Youth Employment Initiative and focuses on priorities like increasing institutional capacity and efficient public administration for the 2014-2020 period. ("European Social Fund" 2016)

The Cohesion Fund is earmarked for MSs whose GNI per inhabitant is less than 90 % of the EU average (for 2014-2020 this encompasses: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and

Slovenia). It is meant **to reduce economic and social disparities and to promote sustainable development, focusing on the environment and traffic infrastructure of Europe-wide import**. The financial assistance of the Cohesion Fund can be suspended by a Council decision (taken by a qualified majority) if a MS shows excessive public deficit and if it has not resolved the situation or has not taken the appropriate action to do so. ("Cohesion Fund" 2016)

Political Scientists, however, do not take these uplifting goals at face value. They show that the conditions and the sums of the transfers between the EU budget and the budgets of the targeted MSs are the outcome of a set of negotiations between powerful political actors, be they national governments who act as gatekeepers between domestic and supranational actors, as stressed by the so-called intergovernamentalist theory (Moravcsik 1993; Moravcsik 1995), or sub-national actors (regions, Länder, etc.) as argued by proponents of the theoretical multilevel governance literature, such as Hooghe (1996) or Tatham (2010).

Bodenstein and Kemmerling (2011) showed that official criteria are not sufficient predictors of Structural Fund allocation (SF): in the 2000 – 2006 programming period, some European regions received significantly more funds than other having the same socio-economic conditions. An example of this can be seen in the Austrian regions Styria and Vienna which have the similar unemployment rates but receive quite different amounts of Objective-2 funding per capita.

Rodden (2002) carried out an empirical analysis in the EU and the former European Community from 1977 to 1999 to find empirical evidence supporting the legislative vote-buying model, according to which, MSs maximise their expected utility by linking their voting positions on different issues. For example state A might buy B's vote in a case that is important to A by promising to vote in B's favour in another case or support redistribution that benefits B. The model predicts that small states (which are overrepresented in both the EP and the European Council of Ministries) will be systematically favoured in the distribution of EU agricultural and regional transfers: large countries may desire the gains from deepening and forming a federal union more and are willing to pay off indifferent states. (Rodden 2002)

Carrubba (1997) arrived at a similar conclusion: he argues that financial transfers exist more for achieving the agreement of target MSs to a deeper level of integration than to serve economic needs. In line with his hypotheses, he found empirical evidence that domestic political conditions influence transfer levels. This result suggests that transfers serve as a side payment to further the integration process in EU through the allocation of EU funding from pro-integrationist countries to the less integrationist governments. (Carrubba 1997)

Kauppi and Widgrén (2004), too, tested in their empirical analyses based on 1976-2001 data whether EU budget expenditures are allocated based on the economic needs of MSs to see if there were other circumstances that explain the distribution of EU Funds. They concluded that 60 percent of EU budget expenditures can be associated with power politics and only 40 percent is attributed to official criteria as enumerated above. In line with (Kandogan 2000) they also used a tailored game theory model and ran regressions to explain the mechanism of power politics. They applied a measure from cooperative game theory, the so-called Shapley-Shubik Index to quantify voting power. After modifying the classical index to incorporate Franco-German partnership, they found that power measures account for more than 90 percent of the variation of budget shares. (Kauppi and Widgrén 2004).

Bodenstein and Kemmerling (2011) gave a quantitative assessment to prove the anecdotal evidence for so-called pork-barrel politics (a term used when politicians or governments "unofficially" undertake projects that benefit a small group of citizens in return for that group's political support) in EU regional policy. For the 2000-2006 programming period, they distinguish between two bargaining processes in the allocation mechanism. The first (the one we are concerned here) looks like this: the European Council established the rough budget, the EC provided a breakdown of MSs with respect of eligible criteria such as population, regional and national prosperity and structural unemployment. In this phase national governments try to exert their influence and put forward a list of regions to negotiate with the EC. In line with Tatham (2010), they found that the higher the unemployment rate in the region, the *less* likely it is that the region will get SF funding, presumably because the additionality of EU Funds creates a trade-off between syphoning them off and using them to directly fight unemployment (Bodenstein and Kemmerling 2011). Once the goals, rules and sums of disbursing structural funds and the cohesion fund are set, we have to concentrate on the second stage, the implementation process.

3. The effects of such funds in the recipient countries

3.1. Evidence from macroeconomic models and estimations

While the EC tends to present cohesion policy as a success (cf. (European Commission 2015), the effectiveness of Cohesion Policy was a controversial topic even before the Eastern enlargement of the EU. This controversy is not new: the EC prided itself in the effectiveness of Cohesion Policy fifteen years ago (European Commission 2001), whereas serious analysts – like Boldrin and Canova (2001) and Ederveen et al. (2003) – disagreed.

A study of the EC conducted by Varga and in't Veld (2011) could represent an upper bound of possible effects of Cohesion Policy. To measure the potential macroeconomic effect of EU Structural and Cohesion Funds in the 2007-2013 programming period, they used the QUEST III[3] model. Their results suggest that Cohesion Policy spending has potentially significant long-term benefits and in the long run, it is able to increase income in the supported regions. In the short run, EU transfers expand spending and raise output, raise the inflationary pressure and may well crowd out productive private investment. Another conclusion of Varga and in't Veld (2011) is that the additionality principle does not have any adverse impact on GDP. Long duration GDP effects outweigh the costs of the program, so the gain from productive spending is larger than the expense of co-financing. Limitations of their study include the simplifying assumption made that sub-optimal projects do not take place, so no money is wasted in that way; their findings are also dependent on their classification of Cohesion Policy projects (Varga and in't Veld 2011).

Cappelen et al. (2003) also found some evidence that EU regional policy has a significant and positive impact on growth in European regions. However, they also spotted convergence more

[3] QUEST III model is used by the Directorate-General for Economic and Financial Affairs of the European Commission.

at a national level than at a regional level. Their results suggest that the positive effect on GDP is stronger in more developed environments, i.e. the impact depends on the institutions of the receiving regions. To put it more bluntly: EU transfers are the least efficient where they are the most needed. They came to the conclusion that growth in poorer regions is greatly hampered by an unfavourable industrial structure (dominated by agriculture) and lack of R&D. Hence they emphasise that fiscal transfers should be accompanied by policies that facilitate structural change and increase R&D capabilities in poorer regions (Cappelen et al. 2003). This, in turn, might or might not be what MSs ask support for.

Szilágyi and Szörfi (2008) are largely in agreement with this result, using different measures of institutional quality. Their analysis, however, suggests that the conditionality of effectiveness hinges, to a large extent, on a single country, Ireland, which performed exceptionally successful in the timespan under scrutiny. They also found that even country specific factors other than institutions play a greater role in explaining convergence than the EU-Funds. (Szilágyi and Szörfi 2008).

Ederveen et al. (2003) and Ederveen, de Groot, and Nahuisa (2002) are also sceptical with the effectiveness of EU cohesion policy. On the one hand Ederveen et al. (2003) found some degree of convergence among both the MSs: poorer regions becoming richer with time. They, however, find that that is not entirely the result of cohesion policy, because it only furthers economic growth in poorer MSs if their economies are more open. Their analysis concludes that growth elasticity of cohesion transfers – the measure of percentage increase of economic growth caused by a one percent increase in cohesion transfer – varies between -0.35 and 0.7, an interval that includes zero. (Ederveen et al. 2003)

Boldrin and Canova (2001) arrive at a similar conclusion after examining the impact of the regional policy transfers on convergence in EU15 regions. The transfers in the 1986 -1996 time period, they conclude, had no significant effect on the regions in question, but may well serve political and redistribution purposes – cf. Bodenstein and Kemmerling (2011). While their findings are methodologically problematic – as it is hard to find or construct adequate counterfactuals and the target regions are very diverse in size and composition, and their economies are connected, - they at least find no statistical evidence that would support Structural funds affected positively economic growth in poorer regions.

This unfortunate methodological challenge is general: the available estimates are indirect in nature and the results depend largely on the specific assumptions and hypotheses which the models are based: macroeconomic simulations (like Varga and in't Veld (2011)) can predict positive effects but those results hinge on dubious assumptions, while econometric analyses like Boldrin and Canova (2001) or Ederveen et al. (2003) have a hard time identifying measurable effects in the regions most in need of them and highlight serious distortions as well.

3.2. Political Economy

3.2.1.Theory

As the stated goal of Structural Funds is to contribute to the economic development of the less developed regions within the European Union through various forms of subsidies and transfers (cf. section 2.2 above), it shows marked similarities with international development aid; indeed it can be argued, it is a form of international development aid. Therefore, in order to understand how such aid affects target countries, the only place to look is beyond this specific instance and ask: what does the general scholarly literature say on the political economy of international aid?

More specifically, the central question in the wider debate on international aid is related to its impact on economic growth: whether aid increases economic growth in developing countries, and if it does, how and why. To determine this, academic papers analyse various factors and mechanisms that might play a decisive role in the impact of international aid in the recipient countries.

There are different channels through which international aid might affect economic growth. The early development literature focused on the importance of aid in capital formation in developing countries, seeing the main cause of poverty in the lack of capital and savings, while others, including Robert J. Barro (1990) focused on its impact through fiscal policy, leading to higher growth and investment because aid allows the government to reduce distortionary taxes. However, Boone (1996) finds that almost independently from the political regime of the recipient country, aid does not lead to capital formation, nor to a decrease in distortionary taxation, but rather, it is channelled to the political elite, to increased consumption and government expenditure. He finds that the results are the clearest in the case of elitist political regimes, and the only difference between regimes is that in the case of liberal regimes, infant mortality is on average 30% lower, which may be due to greater empowerment of the poor.

Boone (1996) investigates the effectiveness of international aid allowing for the assumption that that could depend on the political regime of the recipient country. Based on the influential paper of (G. Becker S. 1983) on the competition among pressure groups, he makes a distinction between three different kinds of political regimes where political elites use foreign aid in different ways: *egalitarian*, *elitist* and *laissez-faire* regimes. He finds that the type of regime under which the recipient country is ruled has a large effect on the welfare effects of aid. Specifically, in his model, an egalitarian government maximises the welfare of households with low initial endowments, therefore foreign aid here should contribute to poverty reduction. An elitist government maximises the welfare of a ruling coalition; therefore it transfers aid to a high-income political elite. A laissez-faire government maximises the welfare of a minimum fraction of the population and focuses on lowering distortionary taxation, which in the end, according to Boone, leads to higher investment and income.

In their influential article “Aid, Policies and Growth”, Burnside and Dollar (1997) also stress the importance of the policy environment in the recipient country, arguing that international aid only has a positive impact in developing countries with good fiscal, monetary and trade policies. Where there are poor policies (ones that are not conducive to growth in themselves), they find no positive effect on growth. Another interesting aspect of their results is that they find no evidence that aid affects policies in any way, even though aid programs are often designed with the explicit aim of rewarding good policies. Instead, they argue that this aim has been overwhelmed by the donor's pursuit of its own interests.

Others, including Knack (2000) and Harford and Klein (2005) argue that there is a danger that recipient countries with inadequate institutional quality may become dependent on international aid in the long term, as processing aid places a heavy burden on their bureaucracy and leads to a deterioration of democratic institutions. This, according to Harford and Klein (2005) might even lead to a situation that is similar to the so-called resource curse, the well documented case where the presence of an abundant and valuable natural resource paradoxically hampers growth, with the difference that the cursed windfall comes as aid, not as revenue from a natural resource.

According to Bräutigam and Knack (2004), there are several ways in which aid might damage institutions and growth. Firstly, it can remove the incentive for poor governments to reform their institutions, therefore poor quality governance may persist as its disadvantages are partially hidden by the effects of aid inflows. Secondly, aid creates a moral hazard problem where recipient governments might spend money without a strict budget constraint in the hope that donors will help them out in case of financial difficulties. Thirdly, development projects financed by international donors might syphon skilled workers away from the government sector, deteriorating the quality of public institutions. Fourth, recipient countries – despite the fact that they should focus on certain priorities that are crucial for economic and social development – might rather expand their operations to cover projects proposed by donors, thereby abandoning their optimal priorities. Finally, aid increases patronage and might lead to fights over the rent aid constitutes.

To sum up what we think are the most relevant findings of this sprawling literature: the channels through which aid can affect the economic development of recipient countries are manifold; effects of aid are highly dependent on the nature of the institutions and the political regime in the receiving country; it is quite possible that aid further compromises those institutions; thus receiving such aid can limit, not boost, economic development.

3.2.2. Empirical evidence

What do we know about the political economy mechanism of Structural funds within recipient countries? In order to assess if SF reach their target and make a significant contribution to the economic development of the less developed countries, we need to understand what factors are in play on the national and regional levels.

There seems to be a consensus in the literature concentrating on SF in the EU concerning the claim (congruent to what we found in the previous subsection), that institutions and institutional quality do matter in the efficiency of the implementation of Structural Funds. Ederveen, de Groot, and Nahuisa (2002) analyse panel data for 13 European countries and they conclude that Structural Funds are effective only in countries with high-quality institutions.

Simona Milio (2007) examines various regions in Italy, and finds that there are significant differences among them in terms of Structural Funds implementation rates. She argues that the administrative capacity of regions is a significant explanatory variable and she provides evidence that administrative capacity – defined as the ability "to manage Structural Funds policy according to their rules and procedures" (p. 435) - is positively correlated with implementation.

It is important to note that regional and local actors that are expected to be important in the design and the implementation of the cohesion policy were relatively newly formed and weak in several new MSs. A case in point is Hungary, where the delineation of NUTS-2 regions used in the geographical distribution of SF was set in as late as 1999, as a central decision, already with an eye on maximal access to Structural Funds (Kovács 2000).

There is some evidence presented by Bähr (2008) suggesting that SF are more effective in promoting growth in more decentralised or federal countries.

Bruszt and Vedres (2009) investigated the role of domestic agency in the framework of the European Cohesion Policy, and found that EU pre-accession programs had a significant and positive effect on the empowerment of local and regional actors in the Czech Republic, Poland and Hungary. They also found that actors involved in pre-accession programs remained active players under the conditions of the more hierarchical post-accession governance.

By contrast, when assessing the regional involvement in Structural Funds in the new MSs in the post-enlargement period, Bachtler and Gorzelak (2007) found no guarantee that the Funds would necessarily promote regionalisation in these countries.

Another reason that might reduce the efficiency of Structural Funds is a distortion that might occur when politicians maximise electoral returns instead of economic and social benefits. Cadot, Röller, and Stephan (2002) looked at a panel of France's regions over the earlier 1985-92 period and found that the cross-regional allocation of transportation infrastructure developments were significantly determined by electoral concerns and influence activities. At the same time they found little evidence that the maximisation of economic returns to the investments would have been significant. In a similar vein, Dellmuth and Stoffel (2012) also found in the case of 419 local districts in Germany that the electoral concerns of sub-state governments distort the allocation of structural funds.

Bouvet and Dall'Erba (2010) looked at 120 NUTS I and II regions from 12 EU countries between 1989 and 1999, and they found that regions that are politically aligned with the national government get an additional 306.82 Euros per capita in Objective 1 Structural Funds compared to regions governed by the opposition. Muraközy and Telegdy (2015) obtain similar results for Hungary and municipalities.

Finally, as a different, administrative source, the European Court of Auditors (ECA) complains that there is too much focus on spending EU Funds regardless of the results achieved, which leads to ineffective spending of EU budget. In addition, their review claims that in some cases EU Funds do not provide additional value, because the projects would have been carried out by MSs anyway, or the funds were not sufficient to achieve the intended outcomes (European Court of Auditors 2014).

We interpret these findings as showing that manner and efficacy of spending SF in the target MSs of the EU is indeed largely affected by institutional quality, political processes and the nature and strength of sub-state actors (which, in turn, might also be affected by SF).

3.3. Corruption

3.3.1.Theory

Corruption is one of the channels through which an international aid mechanism, or, in this case, cohesion policy can end up yielding less social welfare than expected, and, in effect, do harm.

While by definition illegal and immoral, in terms of the analysis of social effects, it is not always easy to separate it from legal and, at least for certain groups and from certain points of view, morally acceptable instances of rent-seeking or pork-barrel politics.

Corruption can take various forms, including political favouritism where contractors are chosen on the basis of their relationship with the political elite (often by tailoring public procurement criteria in a way that only fits one or a small number of companies), bribery or fraud. Besides these, egregious waste of funds on patently meaningless projects - such as plants that cannot be profitably operated or infrastructure that is not used – are also phenomena addressed here.

The wider relationship between international aid and corruption is investigated in a large number of studies. As aid is often associated with corruption and channelling foreign funds to the local political elite, Alesina and Weder (2002) examined whether less corrupt governments receive more aid, and found the contrary: more corrupt countries receive more aid. However, they only find weak evidence that international aid might cause corruption to increase.

When looking at different types of aid and international assistance, Knack (2000) finds that technical assistance erodes the quality of governance measured by bureaucratic quality, corruption and the rule of law, but he cannot show that aid levels are significantly related to corruption.

These results point to the dangers of aid dependence, which can undermine institutional quality that would be an important factor in the efficient usage of international aid.

Rose-Ackerman (1975) and Tavares (2003) show that corruption is most likely to arise in the presence of discretionary decision making, where resources are transferred without accountability to the decision-maker, or where there are rents that might be appropriated. Tavares argues that international aid is such an instance as it provides finance below market prices to the beneficiaries, governments or groups of the population in the recipient country.

José Tavares (2003) also found that international aid actually decreases corruption, arguing that this might have various reasons. The first is a conditionality effect, namely, that foreign aid may come with certain rules that restrict the discretion of government officials. The second is a liquidity effect, if foreign aid can contribute to higher salaries in the public sector, it may decrease the supply of corruption by public officials. He, however, refers to the findings of Alesina and Dollar (2000), according to which aid flows are not primarily driven by the economic or political performance of recipient countries, and warns that his results do not mean that increasing the amount of aid would decrease corruption.

The literature on the relationship between international aid and corruption, however, mostly covers developing countries, so it need not predict the effects of cohesion funds in Europe. Below we will assess how the specific system of distribution the European Structural Funds is affected by corruption by giving an overview of different types and cases of irregularities that decrease the efficiency of the system.

3.3.2.Empirical evidence

Examining contract-level procurement data for the 2009-2012 period, Fazekas et al. (2013) found that EU transfers raise the risk of corruption in Central and Eastern Europe; as a policy recommendation, they call for radically improving the EU's controlling and monitoring framework. They conclude that EU funds institutionalise grand corruption through two channels: first, by making available additional public resources, which increases rent extraction for public procurement, and, second, by omitting to implement sufficient control mechanism that would counter-balance the increased level of corruption risk. Further risk factors include the discretionary nature of large investment projects funded by EU sources, the fact that SF weaken the link between taxation and public policy performance, and in many cases they fuel high-level corruption networks that control both business and political positions. After analysing data of 119017 procurement contracts in the Czech Republic, Hungary and Slovakia, the authors found that EU funds increased "particularistic resource allocation" by up to 1.21 percent of GDP, while total EU funds allocation made up 3.3 percent of the GDP of MSs in the period under scrutiny.

Ineffectual control mechanisms are certainly an important piece of the puzzle: Fazekas et al. (2013) found that despite monitoring efforts of EU authorities, Procurement spending of SF resources carry a higher corruption risk than comparable spending purely from the national budget in Hungary and the Czech Republic (the result is not universal though: this proved to be the other way in Slovakia). In order to improve the efficiency of control mechanisms, as policy recommendations, Fazekas et al. (2013) suggest that the EU implement more effective policies, including a) an EU-wide real time monitoring mechanism of EU funds using up-to-date data mining techniques, b) refocusing control mechanisms from procedural adequacy to effective competition, and c) considering the reallocation of EU funding of discretionary investment projects towards non-discretionary spending (e.g. spending more on education).

According to the most recent report of Transparency International, on a 0-100 Corruption Perception Index scale, which measures the perceived corruption in the public sector, the average EU Cohesion country scores 55.33 (100 means complete lack of corruption). This is better than the world average (43), but lags behind the average for the EU and Western Europe which was 67 in 2015. (Transparency International 2016)

The goal of the Anti-Fraud Office of the EC (OLAF) is to ensure that EU funding reaches its intended aim or it is recovered for the EU budget. The main output produced by OLAF investigations is recommendations, addressed either to the EU institutions, bodies or agencies providing or managing the EU funds, or to the competent authorities of Member States, or both. The recommendations are most often financial in nature, seeking the recovery of the defrauded EU funds or aiming at preventing additional amounts from being lost, or judicial, addressed to the national prosecution authorities, asking them to consider taking judicial action. Sometimes disciplinary recommendations against individual staff members or administrative recommendations to prevent fraud are also made. From the total 474 ongoing investigations they conducted at the end of 2014, 153 were related to Cohesion Policy, many of these undertaken in Central and Eastern European MSs, namely the most cases were examined in Romania with 36 which follows Hungary (13) Bulgaria (11) and Czech Republic (8). Italy comes next with 7, Spain with 5, Greece and Slovakia with 4 each. (European Union 2015, p. 18.)

Table 1: Percentage of investigations concluded with recommendations

2010	2011	2012	2013	2014
55%	56%	32%	51%	59%

Source: European Union (2015), p. 20

In 2014 OLAF issued the highest rate of recommendations in the last 5 years. More than half of the total amount recommended by OLAF in 2014 to be recovered by the EC (476.5 million EUR out of 901 million EUR) had to do with Structural Funds. (European Union 2015, p. 21)

To illustrate the nature of the problem, in Table 2 below we present a few instructive concrete cases of corruption related to SF use, unearthed by investigative journalists and/or OLAF – a few additional cases, more detailed summaries and sources are relegated to the Appendix.

There are several possible ways to categorise these cases. One approach would be to concentrate on the exact nature of the criminal act: favouritism, bribery, embezzlement, fraud etc.

Another would be a ranking by the approximate size of the social harm done. However, for our purposes, it makes more sense to use a different classification, one that asks this question: at which stage of the allocation, distribution and use of SF does corruption occur? This results in the following categories (which are by no means exclusive in the sense that one instance of corruption can often feature under several of these categories at the same time):

Diverting stated development goals for private gain

This is the especially pernicious but hard to spot category when those setting the social development goals for the recipient MS, usually politicians in power during the early phases of the whole process, opt for development goals not because of social, welfare or political reasons but for personal gain. Since the goals are usually sufficiently general, this sort of behaviour is only identified as corruption if the perpetrators are caught red-handed and the stated goal is obviously not serving the public interest or, once implemented, proves obviously ineffectual.

Influencing project selection for private gain

This category is similar to the previous one but it is one step further on the sequential decision tree: cases in which the decision makers or those participating in the preparation of decisions, i.e. politicians in power or high ranking civil servants choose to support less meritorious SF-funded development projects over ones that would serve the stated development goals or social welfare better, based on considerations of private gain, belong under this heading.

Bribery/favouritism in the public procurement process

The expenditure of SF often requires the state to act as a buyer or goods of services. Thus illegal and immoral practices: politicians or civil servants distorting the process of procurement for private gain are also an important category of corruption cases that can be linked to European development funds. This can take many forms: e.g. a bidding process may be avoided altogether, the call for bids may not be public, the time allotted for submitting offers or applications can be unnecessarily short, the conditions and required references can be such as can only be filled by one company that is thus free to charge a high price, etc.

Fraud in the use of funds

Fraud is another important type of corruption, covering a wide range of activities to secure unlawful gain from the forgery of documents to the intentional non-disclosure of important information. In relation to EU funds, there are several reported cases in which companies went bankrupt shortly after receiving funds, while not disclosing information on their financial problems until the very last moment.

Table 2: Cases of corruption: an illustration

Type of corruption/ inefficient use	Cases	
Diverting stated development goals for private gain	**1. Latvia** – The PPL political party used EU money for democratisation for its own youth activities.	**2. Romania/Hungary (2007-2013)** – Within the Hungary-Romania Cross-Border Co-operation Programme 2007-2013, more than EUR 23 million was spent on roads that practically do not lead anywhere. They cross the border, but the need to also establish border checkpoints was disregarded, thus the new roads were impassable.
	3. Greece – Based on an article of a daily newspaper in Greece, Smit (2012, p. 207) reported a case of fraud concerning olive oil subsidies. Fifty-seven producers declared at least 5 times higher volumes of olive oil production than they should have to receive higher subsidies. Almost three years after a complaint was made to the local attorney, and an investigation was launched by OLAF, Greece had to give back EUR 374,000 of olive oil subsidies. In Crete there was no progress in the investigations of the local authorities due to political pressure.	
Influencing project selection for private gain	**4. Spain** – A massive desalination plant constructed in Spain that cost EUR 300 million stayed idle for several years after being built	**5. Italy** – SF flows into construction projects, while the Mafia collects protection money on various construction projects, or its companies participate in EU-funded projects as contractors, but go fraudulently bankrupt after receiving payments
Bribery/favouritism in the public procurement process	**6. Poland (2007-2013)** – In Poland, according to Bouda et al. (2013, p. 39) „a group of high-ranking public officials from the Ministry of Interior and possibly police colluded with IT companies to rig contracts for most important IT systems for the e-government project“. This lasted for several years, undetected, and involved projects with EU funding.	**7. Hungary (2007-2013)** – The company of the son-in-law of Hungarian PM won dozens of public procurements, on several occasions the company was the only bidder because of the procurement conditions
	8. Slovakia (2007-2013) – Through public office holders who are at the same time also members of the board of directors of state-owned Slovakian railway companies, clientelist groups received 26.2% of the aggregate value of public procurement contracts in 2009-2012 according to the findings of Bouda et al. (2013, p. 48)	**9. Malta** – According to Smit (2012), the Nationalist Party of Malta was awarded an EUR 565,000 contract from the EU for providing a daily press review. During the public procurement process, other independent companies with no links to either political party had their tenders turned down.

Fraud in the use of funds	**10. Hungary (2007-2013)** - In a medical centre construction project in Hungary, the ERDF provided EUR 647,000 for medical equipment. The supplier purchased the devices in Slovakia for EUR 262 000, but sold it to the centre for EUR 1.7 million, quadrupling the declared price through a series of transactions with a company registered in the Seychelles.

These are, however, just illustrations. What is the extent of the problem of EU cohesion policy creating more corruption in the recipient MSs? That question is very hard to answer.

One, recent, appropriately wide interval estimate by RAND Europe (2016) puts annual corruption costs in general (using a broad measure that includes indirect effects) in the whole of the EU between EUR 179bn and EUR 990bn. Such estimates, however, do not answer the question of how much more corruption costs are in the recipient MSs *because* they receive SF. Indeed, for the high level corruption cases in the first category in the table (diverting development goals for private gain), we have no estimates at all. Furthermore, what assumptions would we make about alternative scenarios to compare the present spending patterns with? Would the amount of SF be spent in other ways by the EU? Wouldn't those ways also be exposed to corruption? Would recipient countries replace their SF spending with budget resources raised by taxation? How would their spending and corruption patterns change?

Producing a reliable estimate, even if feasible at all, would certainly exceed the limitations of this paper. Estimates for the proportion of corruption cost to procurement value that a study by PwC and Ecorys (2013) prepared for OLAF reviewing five sectors in eight countries that could potentially be used as input for such a calculation vary widely and do not cover some key recipients and sectors.

3.4. Other

The societal effects of a stream of transfers of this size exceed the mechanisms we focussed on above, i.e. those built into models of economics, political economy and corruption. These additional channels, which we have not fully accounted for so far are even harder to pin down, but that does not mean they cannot be of serious significance (either positive or negative). Let us give an indicative rundown of some:

- We have not separately addressed here the issue of "absorption" – whether the MS is in fact capable of fully getting all the SF funds it is entitled to looms large on the horizon of the governmental agencies in charge as a potentially misleading but politically easy-to-interpret short-term indicator of the success of cohesion policy. The argument can be made that deficiencies and delays in the orderly disbursement of SF funds are a mere symptom of the ills enumerated above.
- A recurring issue concerning cohesion policy is to what extent SF simply crowds out expenditure from MS budgets, thus, de facto, representing freely disposable resources for MS politicians with a say over fiscal policy. (Kálmán et al. 2013)

- As briefly noted above, there are rent-seeking effects that have nothing to do with corruption: productive resources, both human and capital targeting the extraction of SF resources instead of finding such an outlet for their energy like generating more additional social welfare (Váradi 2007)
- Monetary mechanisms: an inflow of Euros into countries that still have their own currencies (as is the case for most target MSs) will, depending on their monetary policy regime, affect their exchange rate and thereby their role in international trade and their competitiveness (Madár 2015).
- Mentality and attitudes: the expectations of the EC civil service, the language and the mental framework used by those in the recipient states successfully interacting with it might be markedly different from that in domestic use. This might enrich or confuse expectations. It might contribute to the development of the policy discourse or it might lead to the use of cynical doublespeak. (Balás 2009)
- A move away from permanent domestic expenditure mechanisms and towards "development projects," one-time interventions lasting no more than a few years that can be financed with SF subsidies, can change in incentives at times.

4. What is to be done?

4.1. Data

Is information necessary to further analyse cohesion policy and produce reforms or suggest viable alternatives available?

At a high level of aggregation (used by some macroeconomic models presented above), there is a wealth of statistical and administrative data available on spending the funds in question, both from Eurostat, the EC and (although that is much harder to interpret and compare) the civil services of the recipient MSs.

The more we want to disaggregate information concerning the expenditure of Structural Funds in order to understand and analyse individual operative programs or individual calls, tenders, or other contractual arrangements, the costlier (in terms of research time) and the harder it is to get at reliable data. The authors have learnt during their own programme evaluation efforts that these are often collected in inconsistent or garbled monitoring databases, kept in digitally unsearchable format or not fully divulged with reference to (often spurious) privacy concerns. In addition to general concerns, such monitoring data can bear traces of bias of the goals of those using it from condoning corrupt practices to short-term emphasis on absorption (for instances of this in the field of education, see the country studies in (Pop and Stănuș 2015)). Accessing additional data necessary for measuring the outcomes and results of SF-financed interventions as a part of reliable programme evaluation becomes ever more difficult or sometimes impossible. The

lack of an accessible comprehensive Europe-wide data base collecting (*ex ante*, *interim* and *ex post*) OP evaluations required by DG REGIO and procured by the agencies of the beneficiary MS governments especially stands out.
Comprehensive datasets containing information on the totality of the distribution of European Structural Funds are rare, one useful instance being the one compiled by the Financial Times and the Bureau of Investigative Journalism (data until 2010): http://dl.dropbox.com/u/39827429/EU_Structural_Funds/csv/euFunds.csv .

In terms of relevant secondary sources and evaluations the EC's InfoRegio website is also of interest: http://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/

Data on political behaviour (e.g. voting, transfers across different levels of the state within MSs) are, except from Eurostat data and a few research efforts to bring such data together across countries (e.g. the Quality of Government Institute at Gothenburg University: http://qog.pol.gu.se/) only available on a country-by-country cases, or for subsets of countries (e.g. for OECD-affiliated MSs).

Data sources related to corruption and the misuse of EU funds were listed in the Appendix.

Although data quality, timeliness and availability leave quite a bit to be desired, especially where reliable quantitative programme evaluations are concerned, we do not think that this fact is a serious bottleneck when considering improving EU-wide cohesion policy.

4.2. Suggested policy changes

If, in light of the evidence presented above, the reader is not convinced that the present system of European Structural Funds optimally serves its main stated goal, the reduction of deep geographical disparities within the Union and searches for policy improvements congruent with the manifesto of the European Green Party (European Green Party 2014), there are a number of directions for improvement to consider, even if we do not assume the renegotiation of the Treaties. We first list what we consider possible piecemeal improvements, then propose a politically more radical avenue.

When we sifted through earlier recommendations, we tried to exclude very narrow and technical ones, ones that we think are ideologically opposed to what the Greens/EFA group stands for and ones that might tackle one problem but exacerbate another.

We have hardly invented anything new: most of our recommendations one way or another can be found somewhere in the so-called Barca-report, a major independent review of cohesion policy completed six years ago (Barca 2009).

In Table 3, we link the most important diagnostic insights we derived above about why the present system cannot be expected to fully deliver its stated goals to the directions for policy change we propose below.

Table 3: Diagnosis – Suggested Policy Changes[4]

Diagnosis (section)	Suggested Policy Changes
SF distribution mechanisms represent pork-barrel politics (2)	Awareness-raising **Replacing cohesion policy in its present form with an EU-wide minimum income scheme**
SF outcomes are dependent on the nature of the institutions and the political regime in the receiving MS (3.2)	Raising awareness Improving evaluation, feedback and learning mechanisms Directly targeting local actors More result-based conditionality More frequent and thorough EU-level democratic scrutiny Tackling geographical asymmetries in other parts of the EU budget **Replacing cohesion policy in its present form with an EU-wide minimum income scheme**
Corruption: Ineffectual control mechanisms in the recipient MS (3.3)	Raising awareness **Improving evaluation, feedback and learning mechanisms** More result-based conditionality More frequent and thorough EU-level democratic scrutiny Replacing cohesion policy in its present form with an EU-wide minimum income scheme
Corruption: Diverting stated development goals for private gain (3.3)	Raising awareness Improving evaluation, feedback and learning mechanisms Directly targeting local actors **More result-based conditionality** Replacing cohesion policy in its present form with an EU-wide minimum income scheme
Corruption: Influencing project selection for private gain and Bribery/favouritism in the public procurement process (3.3)	Raising awareness **Improving evaluation, feedback and learning mechanisms** Directly targeting local actors More result-based conditionality Replacing cohesion policy in its present form with an EU-wide minimum income scheme
Corruption: Fraud in the use of funds (3.3)	Raising awareness Improving evaluation, feedback and learning mechanisms Replacing cohesion policy in its present form with an EU-wide minimum income scheme
Other structural problems: General rent-seeking, crowding out, attitudes (3.4)	Raising awareness More frequent and thorough EU-level democratic scrutiny **Replacing cohesion policy in its present form with an EU-wide minimum income scheme**

[4] Suggestions especially likely to tackle the problem in question are highlighted in boldface

4.2.1. Improvements of the present mechanism

Raising awareness concerning the issue both in recipient and in developed MSs.

The political conditions of democratic change of the present mechanisms (discussed above) determining European cohesion policy will hardly be there as long as awareness, based on comprehensive and reliable analysis of the dysfunctions of the present system's cohesion policy is limited to a handful of political scientists, economists or bureaucrats. Only if the public opinion of net donor MSs realise how their contribution is (mis)spent and the public of the recipient states learn the side-effects it causes for their societies will there be a political support for more than cosmetic change. In this effort relying on cooperation with civil society watchdogs and NGOs in monitoring and evaluation of the use of SF and the use of qualitative and quantitative data would be of cardinal importance**.**

Improvement of the honest EU-wide evaluation, feedback and learning mechanisms concerning the past use effects and side-effects of spending of structural funds.

While efforts have been launched in this direction, there is certainly room for more:

- OLAF could do more, more openly and could be given more power to sanction misuse
- The Europe-wide criminal prosecution of instances of fraud in spending SF could be addressed by the establishment of the long-planned European Public Prosecutor's Office (Macovei 2015). Indeed the persistence of the irregularities of the kind discussed in this paper, "to safeguard tax-payers' money" was the main raison d'être of setting up such an office in the first place (European Commission 2011). In as much as "judicial evaluation" is also a policy evaluation mechanism, launching the EPPO could improve SF use and address several levels of corruption issues – unless the very forces discussed above succeed in derailing or putting it off indefinitely.
- The EC could take a more active role in directly procuring, judging and publishing state-of-the-art programme evaluations. (cf. "improving the evidence base" in (ESF Expert Evaluation Network 2014)), improving access to the outputs of these (obligatory) evaluation exercises managed by national authorities
- The composition and role of monitoring committees could be further strengthened.
- The EC (or even the EP) could support watchdog organisations and promote civil monitoring initiatives by more pro-active communication and especially *lege artis* investigative journalism even more.

Tackling geographical asymmetries in other parts of the EU budget.

The part of the EU budget not explicitly earmarked for cohesion and whose distribution, not controlled by the MSs (especially sums earmarked for research and innovation, education and training, trans-European networks, social policy, economic integration and accompanying policies under the title 'Competitiveness for growth and employment'), while less than the slice spent on cohesion, still makes up a tidy sum. This budget is spent according to the nature of the goals to be reached by it (e.g. Framework Programme 7 or Horizon2020 research grants are awarded based on academic excellence) and according to institutional tradition. That may well have the unwelcome side-effect of channelling funds to the most developed areas of Europe. It is well worth exploring how incentives could be fine-tuned without compromising them so that this sum also contributes to the goal cohesion – which is not the case today. (Expert Group 2010, pp. 46-48)

Trying to sidestep, as much as possible, MS governments and instead directly target local actors: local governments or NGOs.

While this has been advocated over and over again (Barca 2009, Stănuș 2015) given the understandable resistance of MS governments to this and the political mechanisms discussed above such a modification is easier said than done. Nevertheless, successes of the Norway Grants (http://eeagrants.org/Who-we-are/Norway-Grants) could be further analysed and built upon. A procedural pre-condition for this would be allowing more flexible funding (e.g. the more forceful promotion of block grants) and, in general, strengthening the practice of participatory grant-making (including participatory needs assessment, diverse options in terms of grant size and type; encouraging strategic thinking, and ensuring liquidity for budget-constrained) as often argued for by NGOs themselves.

Such a shift can only be expected to improve results if and when local governments or NGOs are less likely to be exposed to the problems discussed above (especially low institutional quality and the danger of corruption).

More result-based conditionality to be built in the EC-MS institutional-contractual relationship.

Moving away from a procedural, outcome-based approach to one that makes (future) transfers conditional on measurable social results achieved has been considered a promising direction to improve cohesion policy by many. This, too, has been advocated for a long time (recently, e.g., by (Becker 2012)) and certain elements of such an arrangement have progressively showed up in consecutive programming periods (cf., most recently, PE-CONS 85/13). Nevertheless, as long as the political constraints are there, and the MS governments consider it their birth right to expend the negotiated SF amounts, there are severe limits to what extent credible enforcement mechanisms can be put in place for such conditionality.

More frequent and thorough democratic scrutiny of the implementation of all stated goals of cohesion policy should be exercised by the European Parliament in its supervisory capacity.

It is often during the implementation of the laudable EU-wide objectives that mechanisms of wasteful political collusion, corruption and favouritism creep in – therefore, more overseeing of the whole process by the European Parliament (civil servants of the EC and especially MS governments represented in the Council being more likely to be a part of the problem) could improve outcomes.

These policy steps are meant to address the problems enumerated above. They are not proposed in isolation. They are meant to reinforce and strengthen each other: democratic scrutiny by the EP helps raise awareness of the problem, honest policy learning helps scrutiny and makes result-based conditionality more likely to succeed, introducing more cohesion-enhancing elements in other parts of the EU budget makes “tough love” within cohesion policy proper more politically feasible, etc.

Given, however, that none of these proposals are new, though, one might be sceptical of the extent even a combination of them is politically feasible to pass and implement and, just as importantly, whether they are sufficient to achieve a breakthrough. Indeed, practically none of these piecemeal proposals addresses the elephant in the room, the first row in Table 3, the fact that EU-level pork-barrel politics determines the important elements of cohesion policy. Such scepticism might urge one to look for more radical alternatives – that is what we address next.

4.2.2.A major alternative

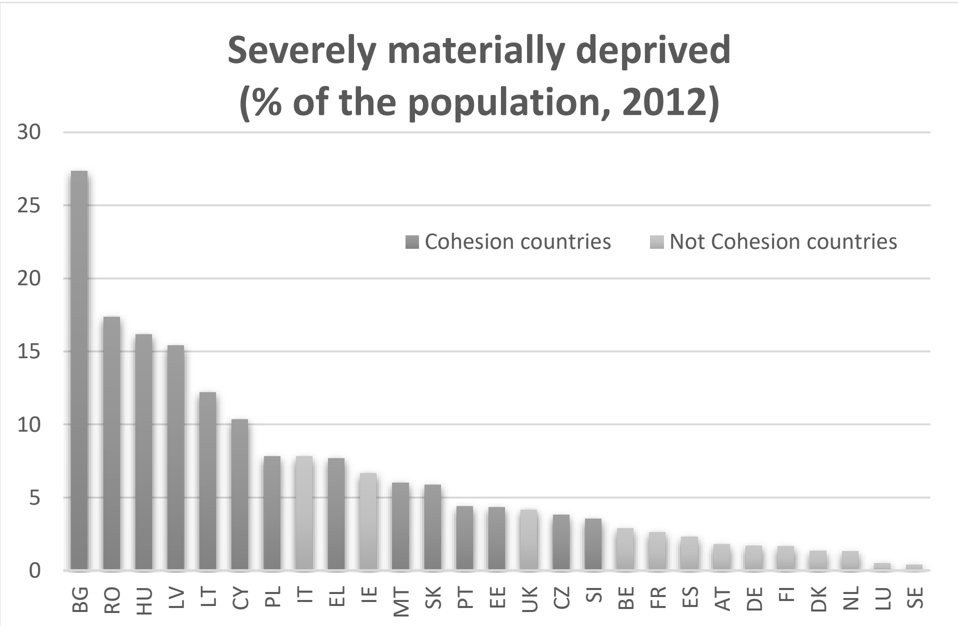
While there is certainly more than one major alternative that could address the goal of helping the economic catch-up of less developed MSs by removing direct transfers to their governments altogether – some of these follow ideological tenets not shared by the European Green Party (like the proposal to radically improve the access of the less developed countries to an even more integrated common market, including services, and let their cost advantages under unfettered competition (as calculated by LSE Enterprise et al. (2011)) make up for lost funds, or another one that suggests to admit defeat and to leave most of the spending of such funds in the hands of MS governments unconditionally (Swidlicki et al. 2016), others would require changes to Treaties.

We advance here a very tentative direction of policy action that is in line with the values of the Green EP caucus and that, with reference to Articles 177-178 of the TFEU, we do not think would necessarily require a treaty renegotiation.

Our proposal is to redirect some or all of the funds earmarked for cohesion policy to directly provide a Europe-wide social safety net to the materially most deprived citizens across Europe, uniformly defined. As can be seen from Figure 3, if we use a universal threshold of poverty that is independent from the average or median income of a person’s country of residence, such a scheme would automatically target the less developed MSs, while it would sidestep many of the weaknesses of the present system; especially corruption. What we have in mind would be, at least to start with, an European (possibly conditional) minimum income scheme (for what is in place now in different MSs, see: http://www.eurofound.europa.eu/observatories/eurwork/comparative-information/minimum-wages-in-europe) that would not be necessarily administered through the civil service of the country in question (B. Kis and Gábos 2015). This is one possible instance of the reallocation of EU funding from discretionary investment projects towards non-discretionary spending that Fazekas et al. (2013) argues for.

Such a bold scheme would be no panacea: it might end up crowding out MS budgetary expenditure (as, by the way, do SF now), it might have prohibitive administrative costs, and it would focus on subsidies to the poor instead of tackling the structural (and often intergenerational) causes of poverty. Nevertheless, such an arrangement could directly address poverty in the MSs and might strengthen all-European identity and support for the European project in general by the less well-off. Thus it might garner democratic support within the target countries, especially from political forces of the left. Such an arrangement would advance "…a territorialised social agenda as part of cohesion policy, aimed at guaranteeing socially agreed standards for particular aspects of their well-being to which people attach a high priority. This would represent a kind of social contract between the EU and its citizens" has already been intimated in the Barca report (Barca 2009)"

Figure 3: Share of severely materially deprived in EU member states, 2012



Source: Data from B. Kis and Gábos (2015)

4.3. Necessary further research

There is a lot more spadework to do concerning European cohesion policy, with many possible directions.

- This study could be extended to a more comprehensive analysis of the social effects (beyond corruption and favouritism) of European Social Funds, taking up important issues only fleetingly addressed above.
- We especially believe that there is a large gap between the many intervention-level evaluations of SF spending (of widely varying quality and often exclusively in local languages) and our general understanding of the mechanisms by which the use of Structural Funds affects the societies of the target countries (as sampled above). Closing this gap (as, for a subset of countries and the field of education only is attempted by Pop and Stănuș (2015)) requires a major multi-country, multi-method collaborative research effort.
- Any of the policy directions proposed in section 4 would require policy research leading to more specific recommendations and the proposal in section 4.2.2 would especially require ample budgetary and institutional planning before being rolled out as a serious policy proposal.

References

Alesina, Alberto, and David Dollar. 2000. “Who Gives Foreign Aid to Whom and Why?” *Journal of Economic Growth* 5: 33–63.
Alesina, Alberto, and Beatrice Weder. 2002. “Do Corrupt Governments Receive Less Foreign Aid?” *The American Economic Review* 92 (4): 1126–37.
Bachtler, John, and Grzegorz Gorzelak. 2007. “REFORMING EU COHESION POLICY A Reappraisal of the Performance of the Structural Funds.” *Policy Studies* 28 (4). http://xa.yimg.com/kq/groups/22977016/1519471724/name/Cohesion+policy.pdf.
Bähr, Cornelius. 2008. “How Does Sub-National Autonomy Affect the Effectiveness of Structural Funds?” 61 (1): 3–18.
Barca, Fabrizio. 2009. *Agenda for a Reformed Cohesion Policy*. European Communities. http://www.interact-eu.net/downloads/1224/Agenda_Reformed_Cohesion_Policy_04_2009.pdf.
Barro, Robert J. 1990. “Government Spending in a Simple Model of Endogenous Growth.” *Journal of Political Economy* 98 (5 pt 2). http://www1.worldbank.org/publicsector/pe/pfma07/BarroEndogGrowthJPE88.pdf.
Becker, Gary, S. 1983. “A Theory of Competition Among Pressure Groups for Political Influence.” *The Quarterly Journal of Economics* 98 (3): 371–400.
Becker, Sascha O. 2012. “EU Structural Funds: Do They Generate More Growth?” CAGE-Chatham House. https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/International%20Economics/1212bp_becker.pdf.
B. Kis, Anna, and András Gábos. 2015. “Consistent Poverty across the EU.” In *ImPRove Working Paper No. 15/22*. Antwerp: Herman Deleeck Centre for Social Policy – Antwerp University.
Bodenstein, Thilo, and Achim Kemmerling. 2011. “Ripples in a Rising Tide: Why Some EU Regions Receive More Structural Funds than Others.” *European Integration Online Papers* 16 (1). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2006413.
Boldrin, M., and F. Canova. 2001. “Inequality and Convergence in Europe’s Regions: Reconsidering European Regional Policies.” *Economic Policy* 16 (32): 206–53. doi:10.1111/1468-0327.00074.
Boone, Peter. 1996. “Politics and the Effectiveness of Foreign Aid.” *European Economic Review* 40 (2): 289–329. doi:10.1016/0014-2921(95)00127-1.
Bouda, Petr, Radana Descikova, Martin Fadmy, and Beáta Filipcova. 2013. “Public Money and Corruption Risks.” Frank Bold. http://www.rekonstrukcestatu.cz/publikace/public_money_and_corruption_risks.pdf.
Bouvet, Florence, and Sandy Dall’Erba. 2010. “European Regional Structural Funds: How Large Is the Influence of Politics on the Allocation Process?” *JCMS: Journal of Common Market Studies* 48 (3): 501–28.
Bräutigam, Deborah A., and Stephen Knack. 2004. “Foreign Aid, Institutions, and Governance in Sub-Saharan Africa.” *Economic Development and Cultural Change* 52: 2.

Bruszt, Laszlo, and Balazs Vedres. 2009. “Fostering Developmental Agency from without.” In . http://www.unc.edu/euce/eusa2009/papers/bruszt_04C.pdf.
Burnside, A. Craig, and David Dollar. 1997. “Aid, Policies, and Growth.” *World Bank Policy Research Working Paper*, no. 569252. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=569252.
Cadot, Olivier, Lars-Hendrik Röller, and Andreas Stephan. 2002. “Contribution to Productivity or Pork Barrel? The Two Faces of Infrastructure Investment,” no. No. FS IV 02-09.
Cappelen, Aadne, Fulvio Castellacci, Jan Fagerberg, and Bart Verspagen. 2003. “The Impact of EU Regional Support on Growth and Convergence in the European Union.” *Journal of Common Market Studies* 41: 621–44.
Carrubba, Clifford J. 1997. “Net Financial Transfers in the European Union: Who Gets What and Why?” *The Journal of Politics* 59 (02): 469. doi:10.2307/2998173.
“Cohesion Fund.” 2016. Accessed February 4. http://ec.europa.eu/regional_policy/en/funding/cohesion-fund/.
Dellmuth, L. M., and M. F. Stoffel. 2012. “Distributive Politics and Intergovernmental Transfers: The Local Allocation of European Union Structural Funds.” *European Union Politics* 13 (3): 413–33. doi:10.1177/1465116512440511.
Ederveen, Sjef, Henri LF de Groot, and Richard Nahuisa. 2002. “Fertile Soil for Structural Funds?” *Tinbergen Institute Discussion Paper*. http://core.ac.uk/download/pdf/6891486.pdf.
Ederveen, Sjef, Joeri Gorter, Ruud de Mooij, and Richard Nahuis. 2003. *Funds and Games: The Economics of European Cohesion Policy*. Brussels. http://shop.ceps.be/free/1068.pdf?
ESF Expert Evaluation Network. 2014. “Final Synthesis Report: Main ESF Achievements, 2007-2013.” European Commission. http://ec.europa.eu/social/BlobServlet?docId=11813&langId=en.
European Commission. 2001. “Unity, Solidarity, Diversity for Europe, Its People and Territory, Second Report on Economic and Social Cohesion,.” Luxembourg: Office for Official Publications of the European Communities.
———. 2011. “Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - On the Protection of the Financial Interests of the European Union by Criminal Law and by Administrative Investigations. An Integrated Policy to Safeguard Taxpayers’ Money.” COM(2011) 293. Brussels, Belgium.
———. 2014. “Investment for Jobs and Growth. Promoting Development and Good Governance in EU Regions and Cities.” Sixth Report on Economic, Social and Territorial Cohesion. Brussels: Publ. Off. of the Europ. Union.
———. 2015. “The Budget Explained - Myths and Facts - Budget.” August 16. http://ec.europa.eu/budget/explained/myths/myths_en.cfm.
European Court of Auditors. 2014. *Making the Best Use of EU Money a Landscape Review of the Risks to the Financial Management of the EU Budget: Landscape Review.* Luxembourg: Publications Office. http://bookshop.europa.eu/uri?target=EUB:NOTICE:QJ0614039:EN:HTML.
European Green Party. 2014. “Change Europe, Vote Green- Manifesto, 2014.” European Green Party.

"European Regional Development Fund." 2016. Accessed February 4. http://ec.europa.eu/regional_policy/en/funding/erdf/.
"European Social Fund." 2016. Accessed February 4. http://ec.europa.eu/regional_policy/en/funding/social-fund/.
European Union. 2015. "The OLAF Report 2014." Luxembourg. http://ec.europa.eu/anti_fraud/documents/reports-olaf/2014/olaf_report_2014_en.pdf.
Expert Group. 2010. "Interim Evaluation of the Seventh Framework Programme / Report of the Expert Group." https://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/fp7_interim_evaluation_expert_group_report.pdf.
Fazekas, Mihály, Jana Chvalkovska, Jiri Skuhrovec, István János Tóth, and Lawrence P. King. 2013. "Are EU Funds a Corruption Risk? The Impact of EU Funds on Grand Corruption in Central and Eastern Europe." *The Anticorruption Frontline. The ANTICORRP Project* 2: 68–89.
Gábor Balás. 2009. "A Magyar Fejlesztéspolitika Alapkérdései." (Fundamental Questions of Development Policy in Hungary) http://hetfa.hu/wp-content/uploads/JKPM06_Fejleszt%C3%A9spolitikaAlapk%C3%A9rd%C3%A9sei2009.pdf.
Harford, Tim, and Michael Klein. 2005. "Aid and the Resource Curse." In . World Bank. http://www.researchgate.net/profile/Michael_Klein15/publication/245236115_Aid_and_the_Resource_Curse/links/00b495342ba68c2cd0000000.pdf.
Hooghe, Liesbet. 1996. *Cohesion Policy and European Integration*. Oxford University Press. https://books.google.hu/books/about/Cohesion_Policy_and_European_Integration.html?hl=hu&id=O1U-BgbrmjQC.
Kálmán, Judit, Váradi, Balázs, Samu, Flóra, and Sütő, Timea. 2013. "A Leszakadó Térségekbe Irányuló Fejlesztési Források Összevetése a Magánszektor Beruházásaival." (Comparing Development Resources and Private Investment in Disadvantaged Micro-regions of Hungary) Budapest Institute for Policy Analysis.
Kandogan, Yener. 2000. "Political Economy of Eastern Enlargement of the European Union: Budgetary Costs and Reforms in Voting Rules." *European Journal of Political Economy* 16 (4): 685–705.
Katsarova, Ivana. 2013. "The Low Absorption of EU Structural Funds." Library of the European Parliament.
Kauppi, Heikki, and Mika Widgrén. 2004. "What Determines EU Decision Making? Needs, Power or Both?" *Economic Policy* 19 (39): 222–66. doi:10.1111/j.1468-0327.2004.00123.x.
Knack, Stephen. 2000. "Aid Dependence and the Quality of Governance- A Cross-Country Empirical Analysis." Policy Research Working Paper 2396. The World Bank Development Research Group Regulation and Competition Policy.
———. 2004. "Does Foreign Aid Promote Democracy?" *International Studies Quarterly* 48 (1): 251–66.
LSE Enterprise, Vienna University of Economics and Business, University of Helsinki, and CASE. 2011. "Study on the Impact of the Single Market on Cohesion: Implications for Cohesion Policy, Growth and Competitiveness (CCIN 2010CE16BAT006) Final Report." LSE Enterprise.

http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/single_market/single_market_report.pdf.
Macovei, Monica. 2015. “Interim Report on the Proposal for a Council Regulation on the Establishment of the European Public Prosecutor’s Office.” COM(2013)0534 – 2013/0255(APP). Brussels: European Parliament, Committee on Civil Liberties, Justice and Home Affairs. http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bREPORT%2bA8-2015-0055%2b0%2bDOC%2bPDF%2bV0%2f%2fEN.
Madár, István. 2015. “Áldott Légy, EU-Támogatás!” *Portfolio.hu*. December 4. http://www.portfolio.hu/gazdasag/aldott_legy_eu-tamogatas.223491.html.
Milio, Simona. 2007. “Can Administrative Capacity Explain Differences in Regional Performances? Evidence from Structural Funds Implementation in Southern Italy.” *Regional Studies* 41 (4): 429–42. doi:10.1080/00343400601120213.
Moravcsik, Andrew. 1993. “Preferences and Power of the European Community: A Liberal Intergovernamentalist Approach.” *Journal of Common Market Sudies* 31 (4): 473–525.
———. 1995. “Liberal Intergovernmentalism Ans Integration: A Rejoinder.” *Journal of Common Market Studies* 33 (4): 611–28.
Muraközy, Balázs, and Álmos Telegdy. 2015. “Political Incentives and State Subsidy Allocation: Evidence from Hungarian Municipalities.”
Pop, Daniel, and Cristina Stănuș. 2015. *Governance of Educational Welfare Markets: A Comparative Analysis of the European Social Fund in Five Countries*.
PwC, and Ecorys. 2013. “Public Procurement: Costs We Pay for Corruption.” https://ec.europa.eu/anti-fraud/sites/antifraud/files/docs/body/pwc_olaf_study_en.pdf.
RAND Europe. 2016. “The Cost of Non-Europe in the Area of Organised Crime and Corruption.” http://www.europarl.europa.eu/RegData/etudes/STUD/2016/579319/EPRS_STU%282016%29579319_EN.pdf.
Rodden, Jonathan. 2002. “Strength in Numbers? Representation and Redistribution in the European Union.” *European Union Politics* 3 (2): 151–75.
Rose-Ackerman, Susan. 1975. “The Economics of Corruption.” *Journal of Public Economics* 4 (2): 187–203.
Smit, Margo. 2012. “Deterrence of Fraud with EU Funds through Investigative Journalism in EU-.” Brussels: European Union, Directorate General for Internal Policies. http://www.europarl.europa.eu/document/activities/cont/201210/20121002ATT52809/20121002ATT52809EN.pdf.
Stănuș, Cristina. 2015. “The Educational Selectivity Effects of Bureaucratic Discretion: Conclusion and Policy Recommendations.” In *The Governance of Educational Welfare Markets: A Comparative Analysis of the European Social Fund in Five Countries*, edited by Daniel Pop and Cristina Stănuș. Bern: PETER LANG LTD International Academic Publishers.
Swidlicki, Pawel, Raoul Ruparel, Mats Persson, and Chris Howarth. 2016. “OFF TARGET: The Case for Bringing Regional Policy Back Home.” Accessed February 15. http://archive.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf.

Szilágyi, Katalin, and Béla Szörfi. 2008. “The Growth Effects of EU Transfers.” http://www.mktudegy.hu/files/szorfib.pdf.
Tatham, Michaël. 2010. “‘With or without You’? Revisiting Territorial State-Bypassing in EU Interest Representation.” *Journal of European Public Policy* 17 (1): 76–99. doi:10.1080/13501760903465082.
Tavares, Jose. 2003. “Does Foreign Aid Corrupt?” *Economics Letters* 79 (1): 99–106.
Transparency International. 2016. “Corruption Perceptions Index 2015 - Transparency International.” http://www.transparency.org/cpi2015#results-table.
Váradi, Balázs. 2007. “A Nyolcezermilliárd átka II.” *Élet és Irodalom*, no. LI./2 (January). http://www.es.hu/?view=doc;15495.
Varga, Janos, and Jan in’t Veld. 2011. “Cohesion Policy Spending in the New Member States of the EU in an Endogenous Growth Model.” *Eastern European Economics* 49 (5): 29–54. doi:10.2753/EEE0012-8775490502.

Appendix – Notable Cases of and Further Sources on SF-related Corruption

1. **Latvia - EU money for democratisation going to PPL political party youth activities**
   URL: http://www.diena.lv/sabiedriba/politika/pll-jauniesu-organizacijas-lideri-teteri-vaino-es-lidzeklu-izskerdesana-767367

   Summary: The PPL political party used EU money for democratisation for its own youth activities.

2. **Romania/Hungary – Millions spent on roads that lead to nowhere**
   URL: http://english.atlatszo.hu/2015/10/02/hungarian-romanian-joint-venture-millions-spent-on-useless-roads/

   Summary: „Within the Hungary-Romania Cross-Border Co-operation Programme 2007-2013, millions were spent on building roads that lead nowhere, **through a complex system of public procurement and sub-contracting.** The total comes to at least 23 million euro, though other sources put the final price tag as high as 55 million." **„Somewhere along the line, the need for border checks was forgotten and as a result border crossings are unchecked and therefore unpassable. The roads worth millions of euros act as playgrounds and keep fit tracks, but fail to attract any actual traffic of note." „**In Hungary, the biggest contractor in the road building programme was Duna Aszfalt Kft, a company which really started to prosper shortly after the Fidesz government came to power.**"**

3. **Greece – Farmers receive much more olive oil subsidies than they should**
   URL: http://www.tanea.gr/ellada/article/?aid=4553391

   Summary: Based on an article of Ta Nea, the biggest daily newspaper in Greece, Smit (2012, p. 207) reported a case of fraud with olive oil subsidies. In the fraud 57 producers declared at least 5 times higher volumes of olive oil production than they should have to receive higher subsidies. Almost three years after a complaint was made to the local attorney, and an investigation was launched by OLAF, Greece has to give back EUR 374,000 of olive oil subsidies. In Crete there was no progress in the investigations of the local authorities due to political pressure.

4. **Spain – Idle desalination plant**
   URL: https://www.thebureauinvestigates.com/2011/04/27/eu-waste-massive-spanish-desalination-plant-lies-idle/

Summary: A massive desalination plant constructed in Spain for EUR 300 million stayed idle for several years after being built.

5. **Italy – Mafia receives EU funds**

   URL: http://www.telegraph.co.uk/news/worldnews/europe/italy/9622553/Making-a-killing-on-contracts-how-Italys-Mafia-has-plundered-EU-building-funds.html

   Summary: „Since 2007 alone, the EU has authorised some €3 billion to Calabria alone, ostensibly to develop one of Italy's most backward and isolated areas. Yet hefty slices of that cash are thought to have gone to the Mafia, which is thought to have taken "pizzo", or Mob tax, on the building of everything from roads to windfarms." "On paper the EU gives lots of money, but sometimes these projects never get off the ground," said Mr di Palma, who works from a high-security court where magistrates have armed bodyguards. "Say you have a project like a dam, which costs €100 million, for which both the EU and the national government contribute €50 million each. The problem is that the money goes straight to the firm doing the work. "Then, once the work begins, the firm will suddenly disappear, stealing the cash and leaving just a few pillars built in the soil."

6. **Poland – Ministry of Interior officials and police collude with IT companies to rig EU-funded contracts**
   URL:
   http://www.rekonstrukcestatu.cz/publikace/public_money_and_corruption_risks.pdf
   (Report on corruption in CEE, p. 39)

   Summary: "The so called Infoafera case of corruption in public tenders for information technologies (IT) may serve as an example of unsatisfying level of internal control of the usage of EU funds in Poland. The case concerns insufficient oversight of public tenders related to EU funds. It is also one of the largest bribery scandals in Polish public administration. In the case a group of high-ranking public officials from the Ministry of Interior and possibly police colluded with IT companies to rig contracts for most important IT systems for the e-government project. The practice lasted for years, undetected. Many of the projects were co-funded by the EU."

7. **Hungary – The company of the son-in-law of Hungarian PM wins dozens of public procurements**
   URL: http://www.direkt36.hu/en/2015/03/11/tiborcz-istvan-es-az-elios-innovativ-zrt-sikerei-ledes-kozvilagitasi-kozbeszerzeseken/

Summary: Elios Innovatív Ltd., a company co-owned by István Tiborcz, son-in-law of Hungarian Prime Minister Viktor Orbán, has become a company with a turnover of several million euros in just a couple of years. Its success lies mainly in winning state contracts, most of them financed by the European Union. According to Direkt36, „there were several other public procurements where conditions turned out to be favourable for Elios Innovatív." The company won in total 19 public lighting projects, out of which on at least 8 occasions Elios was the sole bidder, despite the fact that there are at least 10-12 experienced companies in Hungary who would be both professionally and financially capable of carrying out big public lighting projects. The procurements often included conditions such as high-value reference works that no other Hungary-based firms could comply with.

8. **Slovakia – Clientelist groups affect public tenders of the Slovak Railways**
   URL:
   http://www.rekonstrukcestatu.cz/publikace/public_money_and_corruption_risks.pdf
   (Report on corruption in CEE, p. 48)

   Summary: A case study of Bouda et al. (2013) points to the absence of ownership policy and the politicisation of corporate governance in the case of Slovakian state-owned railway companies, Železnice Slovenskej republiky, š.p. (ŽSR), Železničná spoločnosť Slovensko, a.s. (ZSSK) and Železničná spoločnosť Slovensko Cargo Slovakia, a.s. (CARGO). They argue that the companies „are governed by a close circle of public office holders who are, at the same time, members of the board of directors", leading to „a reasonable suspicion that these groups exert influence over public procurement contracts awarded by the SOE to a close circle of contractors". They found that „in case of public procurement contracts alone, awarded to privately-owned repair companies in 2009–2012, the members of the clientelist group received 26.2% of the aggregate value of all public procurement contracts announced by the railway companies, amounting to tens of millions euros."

9. **Malta – Private companies with no political relations were turned down in a procurement**
   URL: http://maltatoday.com.mt/2005/11/20/top_stroy.html

   Summary: According to Smit (2012), The Nationalist Party of Malta was awarded a major EUR 565,000 (Lm 244,000) contract from the EU for providing a daily press review to the Commission. During the public procurement process, other independent companies with no links to either political party had their tenders turned down
10. **Hungary - Complex fraud involving medical equipment**

URL: http://atlatszo.hu/category/cikkek/unios-testterkep-kerdojelekkel/
http://ec.europa.eu/anti_fraud/documents/reports-olaf/2014/olaf_report_2014_en.pdf
(OLAF report, p. 28)

Summary: „OLAF opened an investigation based on a series of investigative journalism articles on EU funding for the construction and the equipping of a medical centre in Hungary. The European Regional Development Fund (ERDF) provided EUR 674 000 for medical equipment for the centre. The OLAF investigation revealed that the supplier of the equipment had purchased the medical devices for EUR 262 000 from a company in Slovakia. Subsequently, the supplier sold the equipment to the centre for EUR 1.7 million, and this was the amount declared on the application for EU funding. The supplier then paid EUR 1.3 million of the sale price in 'intermediary fees' to a company registered in the Seychelles. In return, the latter provided an interest free loan of EUR 1.26 million to the medical centre. By doing this, the supplier and the medical centre quadrupled the declared prices of the medical devices and appear to have defrauded the EU budget and circumvented the obligation on the medical centre to provide a financial contribution. The OLAF investigation also revealed that much of the equipment was not used at all and other equipment was found to be located at sites outside disadvantaged regions, in breach of the objectives of the programme governing the project. In 2014, OLAF recommended to the Commission and the Hungarian authorities that they make arrangements for the full recovery of the ERDF subsidy and the national funding provided for the centre. OLAF also made recommendations to the Hungarian judicial authorities."(European Union 2015, p. 28)

11. **Czech Republic – The company of the Minister of Transport received various EU-funded contracts**
URL:
http://www.rekonstrukcestatu.cz/publikace/public_money_and_corruption_risks.pdf
(Report on corruption in CEE, p. 31)
http://byznys.ihned.cz/tagy/Viamont-227983

Summary: According to Bouda et al. (2013, p. 31) the "Řebíček System" case involves two anonymous companies which won public tender contracts that were co-financed out of EU funds through the Operational Programme Transport. One of the companies, Viamont, a.s. was co-founded and co-owned by A. Řebíček, a regionally important entrepreneur. While the company had financial difficulties around 2004-2005, its profit jumped to almost 200 million CZK in 2007, when A. Řebíček became Minister of Transport. The highest estimate of the overall value of contracts in the transport sector awarded to VIAMONT, a.s. was calculated by the paper "Hospodářské Noviny" in 2010 —it estimated the total value of these contracts at CZK 14 billion. According to Bouda et al. (2013), „following Řebíček's removal from the office of Minister of Transport in January 2009, there was a decline in the value of the contracts procured by VIAMONT, a.s., and it led to the company's insolvency in 2012. There is a reason to suspect that Minister A. Řebíček, prior to his taking up the post of Minister of Transport in 2006, did not give up his real connection with the company despite his formal sale of his stake in it. Due to VIAMONT's anonymous securities, his share in the company has never been proven. Řebíček refused to provide the contract of the sale.“

12. Spain – Serious irregularities in the development of Spanish maritime port

URL: http://ec.europa.eu/anti_fraud/documents/reports-olaf/2014/olaf_report_2014_en.pdf (OLAF report, p. 27)

Summary: OLAF investigated a large project receiving significant EU funds from the Cohesion Fund for the development of maritime port facilities in a Spanish town, and found very serious irregularities and probable evidence for fraud. The fraud concerned the awarding of the public tender contract and also the execution of the works. The irregularities according to the OLAF report include "breaches of the public procurement rules, provision of false information on the quantities and therefore costs of materials used and non-cooperation with OLAF in the course of the investigation." According to the report "OLAF concluded the case in 2014 with a financial recommendation to the Directorate-General for Regional and Urban Policy of the EC to recover the EUR 198 million of EU funds that had already been paid out for the project and also not to pay the further EUR 49 million that had been allocated to it."

13. Hungary – Companies receive EU funds then go bankrupt

URL: http://www.direkt36.hu/en/2015/09/03/igy-pocsekoltak-el-nagyon-sok-eu-s-penzt/

Summary: According to Direkt36, a Hungarian portal for investigative journalism, more than 300 companies went bankrupt in Hungary after receiving EU funds during the 2007-2013 programming period. One of them, Új Synergon Ltd. was co-owned by Norbert Szivek, who was appointed as CEO of the Hungarian National Asset Management Inc. by the government in February 2015. At the end of 2011, Új Synergon Ltd. was awarded two EU grants worth 176 million forints (560.5 thousand euros) with the goal of improving the company's premises and growing its staff of more than 100 people with another 30 new employees. However, nothing of this was achieved, and despite its obligations the company failed to report that it was experiencing major financial problems. On 20 June 2013, the company received a payment of 49 million forints (156 thousand euros) from EU funds, and shortly after, in August 2013, it filed for bankruptcy, which later turned into liquidation. Direkt36 reports that „the Prime Minister's Office has not answered the question whether it was known to the authorities that Új Synergon was having difficulties at the time of the payment of 49 million. The office did not answer those questions either how they try to avoid similar situations and what they do to make sure that the EU grant contracts are followed."

A list of cases can be found in an EC report on the role of investigative journalism in the deterrence of fraud with EU funds (Smit 2012): http://www.europarl.europa.eu/document/activities/cont/201210/20121002ATT52809/20121002ATT52809EN.pdf

Concerning corruption, OLAF publishes a report on its own performance, number of investigations, number of recommendations, recovered amounts: http://ec.europa.eu/anti_fraud/documents/reports-olaf/2014/olaf_report_2014_en.pdf
Transparency International's Corruption Perception Index (URL: http://www.transparency.org/cpi2015#results-table) is often referred to in comparative studies, and the ANTICORRP project and its affiliates also have useful information on their website (URL: http://anticorrp.eu/).

There is also a number of national investigative news portals that present specific cases, such as The Bureau of Investigative Journalism in the UK (URL: https://www.thebureauinvestigates.com), Direkt36 in Hungary (URL: http://www.direkt36.hu/), or IRPI in Italy (URL: https://irpi.eu/).

The gaps in accessible data are, to some extent, filled in by different EU-wide and national civic and PPP initiatives like these:
http://community.openspending.org/resources/eu/
http://openbudgets.eu/resources/
http://www.monithon.it/
http://www.opencoesione.gov.it/