

Instruments and Tools at EU Level and Developed at Member State Level to Prevent and Tackle Fraud - ARACHNE

The Committee on Budgetary Control has organised a public hearing with the aim of gaining a better understanding of the technical support provided to Member States, particularly in the areas of better administration, digitalisation and EU fund implementation. This briefing provides background information on the tools available to Member States and their managing authorities in the fight against fraud and the broader protection of the Union's financial interests. Although the fight against fraud involves a multitude of tools in many policy areas, the tool under examination in this paper is, for the moment, used only for projects implemented with the support of the European Structural and Investment Funds. However, the recent Commission proposal for a recast of the Financial Regulation extends its use to the implementation of all EU funds. This briefing note will provide background information on the ARACHNE tool and insight into how it is used. It will also provide an overview of the benefits of using ARACHNE, as well as some of the objections to its use.

Introduction – What is ARACHNE and how does it work?

ARACHNE is a risk-scoring tool developed by the Commission, represented by the Directorate General for Employment, Social Affairs and Inclusion and the Directorate General for Regional Policy and Urban Development, in close cooperation with some Member States. In providing ARACHNE, the Commission services aim to support the managing authorities responsible for the European Structural and Investment Funds in effectively and efficiently identifying the most risky projects, contracts, contractors and beneficiaries. The Commission has committed to supporting 'the managing authorities technically and administratively, to install, integrate, and to use this IT tool, and provide the risk calculation'¹.

ARACHNE is an integrated IT tool for data mining and data enrichment, whose objective is to support managing authorities in their administrative controls and management checks. It enriches the data with publicly available information in order to identify, based on a set of risk indicators, the projects, beneficiaries, contracts, contractors and sub-contractors that might be susceptible to risks of fraud, conflicts of interest or other irregularities. However, it does not assess the individual conduct of fund recipients and does not automatically exclude beneficiaries or potential beneficiaries from EU funds. The tool sends risk alerts to managing authorities to enrich their management checks, but does not supply them with any proof of error, irregularity or fraud².

In order to calculate the risk to the financial interests of the EU, the operational data from the Member States' European Social Fund (ESF) and European Regional Development Fund (ERDF) managing authorities is transmitted to the Commission. This data includes information on beneficiaries, project partners, sub-contractors, service providers, consortium members and others involved. This operational data is then

¹ <https://ec.europa.eu/social/BlobServlet?docId=14836&langId=en>

² <https://ec.europa.eu/social/main.jsp?catId=325&intPagId=3587&langId=en>



further complemented by information from external data sources, the Orbis and World Compliance databases, containing officially published and publicly available data on the companies and persons involved. Orbis provides information on companies such as financial data, addresses, historical data, and information on shareholders, management and key staff. World Compliance provides information such as the profiles of politically exposed persons, their families and associates; a sanctions list, including individuals and companies with the highest risk rating; and an enforcement list, including information received from regulatory and governmental authorities and the content of warnings and actions against individuals and companies³.

State of play and proposal for the future

ARACHNE is currently implemented on a voluntary basis in the areas covered by structural funds such as the ESF and the ERDF. It establishes a comprehensive database of projects implemented under the structural funds using data provided by the ESF and ERDF managing authorities⁴. In the 2014-2020 multiannual financial framework (MFF) programming period, 20 Member States used ARACHNE, of which 16 had integrated it into their management and verification processes for at least one operational programme⁵. In the current programming period, two more countries have started using the tool, and the Commission is actively working on further extending the coverage⁶. However, a study carried out by Directorate General for Regional Policy and Urban Development found that the majority of managing authorities do not use ARACHNE as a risk-scoring or fraud-detection tool, but rather use it in conjunction with other IT tools used at national level. These national tools, although offering similar functionalities, have a narrower geographical scope⁷.

The recast of the Financial Regulation, published on 16 May 2022⁸, proposes making the use of ‘a single integrated IT system for data-mining and risk-scoring (provided by the Commission)’ compulsory for all Union funding. For the time being, this IT system is ARACHNE. The proposal would extend the data to include beneficial owners of recipients of EU funds. The proposed new rules would apply to programmes adopted and financed under post-2027 MFFs.

Benefits of using and challenges of implementing ARACHNE

A recent study commissioned by the European Parliament’s Policy Department for Budgetary Affairs on *Identifying Patterns of Fraud with EU Funds under Shared Management* suggests that ‘universal use of ARACHNE is essential for effectively tackling fraud, for example because projects of large financial value will often involve beneficiaries in several Member States. Also, a (potential) beneficiary that is suspected of fraud in one country might attempt similar activities in another unless information is shared. It is therefore important to have a data mining tool that can identify red flags by processing data from across more than one EU Member State’⁹. The recent European Court of Auditors Special Report on *The Commission’s assessment of national recovery and resilience plans* also states that ‘a common data-mining and risk-scoring tool is a key element in protecting the EU’s financial interests’¹⁰. The majority of managing authorities using ARACHNE found that it provided added value in assessing potential conflicts of interest and identifying red flags¹¹. The Member States that use ARACHNE most actively appear to be Bulgaria, Czechia, France, Italy, Latvia, Romania and Slovakia.

Although the Member States that use this tool have found it to be useful, the majority have still have not made full use of it for a variety of reasons. Among the difficulties listed by managing authorities in using ARACHNE are data collection (administrative burden), accuracy issues (high number of false positives) and

³ <https://ec.europa.eu/social/main.jsp?catId=325&intPagId=3587&langId=en>

⁴ <https://ec.europa.eu/social/main.jsp?catId=325&intPagId=3587&langId=en>

⁵ https://eucrim.eu/media/issue/pdf/eucrim_issue_2020-02.pdf

⁶ https://www.europarl.europa.eu/doceo/document/E-9-2022-002217-ASW_EN.pdf

⁷ [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU\(2022\)702671_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU(2022)702671_EN.pdf)

⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52022PC0223>

⁹ [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU\(2022\)702671_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU(2022)702671_EN.pdf)

¹⁰ https://www.eca.europa.eu/Lists/ECADocuments/SR22_21/SR_NRRPs_EN.pdf

¹¹ https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/preventing_fraud_en.pdf

legislative barriers, in particular with regard to national data protection laws¹². Those Member States that have found it useful have expressed the criticism that it is only available in the area of structural funds, when it could usefully be applied to other areas. In order to develop the tool further, managing authorities are in the process of trialling ARACHNE in other policy areas. The paying authority in Croatia overseeing agricultural funds, for example, is piloting the use of ARACHNE to identify conflicts of interest.

A study by the European Policies Research Centre (EPRC) assessed the perceived effectiveness of anti-fraud measures in cohesion policy by surveying managing authorities. Of the fraud detection measures, the ARACHNE risk-scoring tool was perceived to be the least effective (5.4 points out of 10); those with the highest effectiveness rating were: on-the-spot checks and audit (9.0/10), internal fraud reporting mechanisms (8.4/10) and fraud risk assessment of project applicants/ beneficiaries (7.7/10). However, it is also true that the accuracy of ARACHNE increases with increased uptake, as it relies to a large extent on the input of data by managing authorities for the calculation of risk indicators, as well as on the capacity of data systems to communicate with each other¹³. The ability to use 'feedback loops' to report errors and inconsistencies in the tool also allows for the further improvement of ARACHNE with increased use.

Administrative burden is a key issue, as many Member States already use their own IT tools at national level. Concerns about ARACHNE led Poland to develop a national tool, the Cross-Check IT Management System¹⁴. In 2017, Germany established a Competition Register for Public Procurement. This allows authorities to check a single nationwide database for companies that have committed economic crimes and companies that have breached competition law¹⁵. Member States critical of the use of ARACHNE cite the extra work involved in inputting the data into both their national systems and ARACHNE¹⁶.

Of the countries reluctant to use ARACHNE, Germany has cited the risk of a breach of national rules on data confidentiality and protection¹⁷. Sweden and Finland have cited similar risks¹⁸. There are concerns that the use of ARACHNE 'could be an unconstitutional computer-aided search which could implicate innocent people'¹⁹. On this basis, the Commission referred ARACHNE to the European Data Protection Supervisor, 'who has accepted the use for the purposes indicated in this prior notification information, i.e. anti-fraud measures implemented by the Services of the Commission and the authorities implementing the programmes for the European Structural and Investment Funds'²⁰. At a hearing in the CONT Committee on 30 November 2021, Commissioner Ferreira stated: 'The Commission ensures that its data-mining tool (ARACHNE) is compliant with data protection requirements and periodically verifies this with the European Data Protection Supervisor'²¹. The Commissioner also stated that she would be submitting a data protection impact assessment to the European Commission Data Protection Officer in early 2022, which the Commission hoped would further address some of the lingering data protection concerns of Member States with regard to ARACHNE. At the time of drafting, the impact assessment is not visible in the Register of the Data Protection Officer²²; however, there is no obligation to publish it²³.

The Netherlands have also been reluctant to implement ARACHNE. The main reason cited is the additional administrative burden addressed above, as well as concerns about the usefulness of the software. The EPRC found that ARACHNE does not fully address the needs of the Dutch managing authorities²⁴. The following text box is included in the EPRC report and quotes the evaluation of the ARACHNE pilot by the Kansen voor West managing authority:

¹² https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/preventing_fraud_en.pdf

¹³ [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU\(2021\)697019_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf)

¹⁴ https://antifraud-knowledge-centre.ec.europa.eu/library-good-practices-and-case-studies/good-practices/cross-check-it-mechanism_en

¹⁵ [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU\(2021\)697019_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf)

¹⁶ [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU\(2022\)702671_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU(2022)702671_EN.pdf)

¹⁷ [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU\(2022\)702671_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/702671/IPOL_STU(2022)702671_EN.pdf)

¹⁸ https://www.europarl.europa.eu/doceo/document/E-9-2022-002217-ASW_EN.pdf

¹⁹ https://www.europarl.europa.eu/doceo/document/E-8-2017-002400_EN.html

²⁰ https://www.europarl.europa.eu/doceo/document/E-8-2017-002400-ASW_EN.html

²¹ https://www.europarl.europa.eu/cmsdata/243690/20211220%20Replies%20to%20additional%20questions%20to%20Cmsser%20Ferreira_clean.pdf

²² <https://ec.europa.eu/dpo-register/detail/DPR-EC-00598>

²³ Guidelines on Data Protection Impact Assessment (DPIA) and determining whether processing is "likely to result in a high risk" for the purposes of Regulation 2016/679 (WP 248 rev.01).

²⁴ https://eprc-strath.org/wp-content/uploads/2021/10/IQ-Net_Thematic_Paper_2020A.pdf

ARACHNE could be a good system with added value, but the EC has designed the product in such a way that it falls short in relevant areas for us. This is because ARACHNE is particularly focused on making risks transparent at project level, whereas our control points are more partner-oriented. ARACHNE feels like a semi-finished product that still needs to be perfected by the EC. A few small adjustments would already make for great results. ARACHNE makes a comparison between, for example, infrastructural projects, such as the construction of (rail) roads. The comparison between the costs per constructed km is useful in itself and could provide interesting insights, but in the Netherlands, no infrastructural projects are carried out. Instead, projects aim at innovation, which is not comparable. Occasionally, ARACHNE brings up a 'related party' that was not yet in the picture. The question is whether the costs outweigh the benefits. The information from Company Info is often more complete and clear. On the other hand, the EC would like us to use this system in conjunction with FRA and therefore we would not need to set up another system. By our use of ARACHNE, as explained in this memo, our projects are visible to other Member States. We use a mix of systems for the risk analysis of projects, and in line with the anti-fraud efforts of the EC, it is sensible to keep it that way.

Source: Kansen voor West (2020), in Dozhdeva and Mendez (2020), 'Is Fraud Risk Management in Cohesion Policy Effective and Proportionate?'.

Further Reading

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