

Italian police combat waves of fraud

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Published: November 30 2010 18:31 | Last updated: November 30 2010 18:31

It took two years to prepare but when plainclothes officers from Italy's finance police launched pre-dawn raids around the country this August they struck relative gold.

Arrested on suspicion of defrauding the European Union of public funds were a group of businessmen. Police seized assets worth €40m, including a site with a swimming pool, wedding reception area, warehouses and hedges trimmed in the shape of Disney characters.

Italy's finance police have tackled thousands of cases of suspected [fraud involving EU structural funds](#) totalling hundreds of millions of euros. Though it concerns a relatively small proportion of the total disbursed, their investigation has uncovered sophisticated networks and sometimes Mafia involvement.

"In this field, consultants and professionals specialise in the submission of fake fund applications and act as real lobbyists of fraud," says Colonel Fabrizio Martinelli at the headquarters of Italy's Guardia di Finanza.

In the first 10 months of 2010, Italy's finance police closed 769 cases of suspected fraud totalling €320m in structural funds.

According to Col Martinelli, the majority of irregularities concern the [European Fund for Regional Development and aid](#) co-financed by Italy through law 488, a piece of legislation that politicians now admit was seriously flawed.

Passed in 1992, law 488 established the mechanisms for allocating direct grants to businesses in less developed areas of Italy and put regional authorities in charge of disbursing funds.

But in 2009 alone, police investigators closed 109 cases of suspected fraud related to Law 488, of which 79 involved funds allocated to Italy's poorer south – the main beneficiary of development aid but also the heartland of organised crime. A breakdown of cases specifically involving Law 488 for earlier years is not available.

From 2000 to 2006 €50bn, shared equally by the EU and Italy, were spent, mostly in poorer southern regions. Of this total, €3.3bn was allocated to small and medium enterprises under Law 488. In the current 2007 to 2013 budget period the overall fund has grown to €60.6bn, according to Italy's ministry of economic development.

Pierluigi Bersani, leader of the opposition Democratic party, was a fierce critic of the law while serving as development minister. It was replaced in February 2008 with a system based on providing fiscal incentives for industrial investments. Law 488 "was not based on merit, but was an opaque, distorted and inefficient method of fund allocation. It also created market distortions", says Stefano Fassina, head of economics for the Democratic party.

A 2009 report by the European parliament's budgetary affairs department, citing Italy's Court of Audit, complained that regional authorities and financial institutions lacked the manpower to ensure effective control over EU funding. "Financial control interventions generally came too late to allow for the recovery of irregular/fraudulent spending," the court said.

But the questions over alleged fraud associated with law 488 illustrate bigger EU worries over irregularities. A European parliament report in March expressed concern that "Italy, Poland, the United Kingdom and Spain have the highest level of irregularities", though it also commended their collaboration in combating fraud.

Italy's finance police said that from 2005 to 2009 they closed 4,712 cases related to EU funds matched by national contributions, with suspected fraud totalling €2.1bn. Some €600m related to agricultural funding. Over half the number of cases, totalling €1.5bn, involved structural funds, with 2,200 suspects identified.

Most irregularities occur at the stage of project selection, involving fake invoices and documents for non-existent operations. Many are linked to money laundering, corruption and black market labour, as well as companies in northern Italy seeking to relocate to the south.

Rossana Boldi, head of the Italian Senate's EU policy commission, notes that 30 per cent of fraud cases in the south occur in Calabria, known for its high level of infiltration into business and public

Structural funds database



Search through 646,929 records of €124.72bn in estimated EU funding to see

how different companies and countries benefit

affairs by the 'Ndrangheta Mafia.

There are no official statistics specifically for EU fraud involving the Mafia, but police investigators are aware that EU money acted as a siren call for organised crime working through local officials responsible for selecting projects.

“Gorgon” – a joint project between finance police and the National Anti-mafia Directorate – uncovered cases of fraud totalling €103m committed by individuals linked to Mafia organisations from 2006 and 2009.

“A new Mafia-related bourgeoisie, made of lawyers, notaries, accountants and entrepreneurs, [is] the connection between criminal organisations and the economic and political reality,” says Beppe Pisanu, president of parliament’s anti-Mafia commission.

Under Italian law, courts can “preventively” seize assets from suspects before cases come to trial. Brussels is only refunded what has been seized at the end of the entire judicial process, which with Italy’s notoriously slow judicial system can take years. According to latest data, by end-2008 Italy had recovered €77.1m from fraud-related convictions in cases that involved overall fraud of €486m.

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