

Anti-Fraud Activity Report **2016**



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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDPS	European Data Protection Supervisor
EIB	European Investment Bank
EIF	European Investment Fund
IDB	Inter-American Development Bank
IFIs	International Financial Institutions
IG	Inspectorate General
IG/IN	Fraud Investigations Division of the Inspectorate General
MBILs	Multi-Beneficiary Intermediated Loans
MDB	Multilateral Development Bank
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
PMR	Proactive Media Review
PIR	Proactive Integrity Review
WB	World Bank

Foreword by the President



The EIB seeks to combat fraud and corruption throughout the project cycle, by preventing it wherever possible and detecting and addressing it where it has occurred.

The European Investment Bank (EIB) Group finances and supports projects that make a strong, inspiring impact on businesses and lives in Europe and beyond. This impact has been growing quickly in the past few years, as a result of our drive to use money more smartly – combining EIB Group financing with private capital, EU funds and grants, and the advisory support of EIB experts – to achieve the maximum economic effect.

In 2016 EIB Group financing reached EUR 83.75 billion and our portfolio of loans, guarantees and investments mobilised a phenomenal EUR 280 billion of total investment. At the same time, the size and scope of our operations brings with it certain challenges, namely in terms of the fight against Prohibited Conduct.

2016 was an intensive year in the fight against corruption on the international agenda. The G20 concluded their summit in China in September with an updated anti-corruption action plan recalling that “corruption is at the heart of so many of the challenges the world faces. It undermines good governance, erodes the trust that people place in public institutions, corrodes decision-making, impedes economic development and facilitates organised crime”¹.

At the same summit in China, the G20 encouraged international organisations to increase their focus on fighting corruption and the OECD underlined that “effective international co-operation between countries is crucial for the successful investigation, prosecution and sanction of international corruption offences”².

¹ G20 Anti-Corruption Action Plan 2017-2018, 2016 Hangzhou Summit Hangzhou, 5 September 2016, available at: <http://www.g20.utoronto.ca/2016/g20-anticorruption-action-plan.pdf>

² OECD, Anti-Bribery Convention: Country Contact Points for International Co-operation, June 2016, available at: <http://www.oecd.org/daf/anti-bribery/WGB-Country-Contact-Points-International-Cooperation.pdf>



The EIB Group has a vital role to play in the fight against fraud and corruption. As the largest multilateral borrower and lender by volume, fighting fraud and corruption is by necessity an important part of what we do. We therefore need to be mindful of the risk of fraud and corruption and ensure that this risk is mitigated to the fullest extent possible, for example through appropriate training and prevention strategies, including robust integrity clauses in the Bank's contracts... the EIB does not lend at any cost.

Through its "zero tolerance" policy, the EIB Group is firmly committed to fighting Prohibited Conduct – which includes not only fraud and corruption, but also collusion, coercion, obstruction, money laundering and financing of terrorism – impacting any of its activities or operations. The EIB seeks to combat fraud and corruption throughout the project cycle, by preventing it wherever possible and detecting and addressing it where it has occurred. The zero tolerance policy means that corruption is never acceptable. Wherever and whenever there is an allegation of any form of Prohibited Conduct, the Fraud Investigations Division will investigate and appropriate action will be taken.

The EIB Group's Anti-Fraud Policies apply to all counterparties, sponsors, promoters and contractors involved in any EIB or EIF operation, who are therefore required to report any alleged or suspected Prohibited Conduct, of any kind, to IG/IN.

I am delighted to present this report demonstrating how IG/IN contributes to the EIB Group's efforts to ensure that funds are used for the purposes intended and that the EIB Group's zero tolerance policy is effective.

Werner Hoyer

Overview by the Inspector General



2016 was a busy and challenging year, with an increase in cases referred to IG/IN for investigation and a number of new initiatives as outlined further on in this report.

Throughout its 11 years of operation, IG/IN has sought to focus attention on integrity issues and to mitigate the risks associated with Prohibited Conduct. This Annual Report covers IG/IN's 2016 activities. It provides details, to the extent possible, on a number of actual investigation cases¹ and issues relating to Prohibited Conduct, to provide a better understanding of IG/IN's mandate and the impact of these integrity issues on the EIB Group.

In addition to being the sole office within the EIB Group investigating Prohibited Conduct, IG/IN also undertakes Proactive Integrity Reviews (PIRs). As described in more detail later in this report, this work

continues to inform the Bank's senior management of serious issues such as fraud and corruption that otherwise would have remained unknown and had previously not been reported. The work of IG/IN (including both investigation and the findings and results of PIRs) also results in recommendations for strengthening the Bank's control framework.

In order to conduct its work – both reactively and proactively – IG/IN relies on appropriate contractual clauses in the contracts the Bank agrees with its borrowers. Such clauses provide access to documentation and information to allow IG/IN to gather all necessary data and to make an objective determination of the facts where necessary.

An analysis of the cases investigated by IG/IN provides insight into the sectors that have been the focus of allegations, where those allegations have come from,

¹ As noted in the Bank's Transparency Policy, while the Bank is committed to a policy of presumption of disclosure and transparency, it also has the duty to respect professional secrecy in compliance with European laws. In particular, IG/IN must ensure the confidentiality of its investigative processes, and information related to them, in order to preserve the integrity, the purpose and the outcome of its investigations. In this context, IG/IN seeks the appropriate balance between transparency and confidentiality when disclosing information on cases it has investigated.

and the types of cases referred to IG/IN for investigation. In 2016, IG/IN investigated Prohibited Conduct in many sectors; 17% of the investigations carried out were linked to transport. Fraud and corruption are by far the most common types of allegation that we receive. Out of 120 cases reported to IG/IN in 2016, 53% were referred by EIB Group staff. This statistic shows how important the staff's cooperation and duty to report are for identifying and raising issues of concern. To emphasise the importance of meeting witnesses and subjects as well as to inspect relevant books and records, it was necessary for IG/IN investigators to undertake a total of 82 missions to countries in Europe, Africa, Latin America and the Middle East.

The nature of IG/IN's work requires effective liaison and cooperation with national investigation, prosecutorial and anti-corruption bodies in the countries where EIB lends, as well as close work with other international financial institutions, the European Commission and OLAF. IG/IN's cooperation and information-sharing with national authorities and investigations offices of other international organisations intensified in 2016, in particular with the implementation of an Administrative Cooperation Agreement with OLAF and the signing of cooperation arrangements with law enforcement and anti-corruption agencies in Italy, Latvia and Malawi.

IG/IN also implemented a number of changes in 2016 as part of a strategic planning process. The fraud reporting mechanism on the EIB's website is now available in 30 languages to make it easier to report suspected Prohibited Conduct². A new case intake and assessment procedure has been formalised and is being implemented across the team to ensure a more systematic and efficient case selection process.

Also in 2016, IG/IN worked on increasing fraud awareness, including by hosting the first EIB event to mark International Anti-Corruption Day on 9 December 2016, with the provocative title "Fraud and Corruption: who cares?". On the same day, the EIB organised a stakeholder engagement workshop on integrity in large infrastructure projects; this event took place at the EIB's Brussels office and included speakers from Transparency International (TI), OLAF, Siemens Integrity Initiative, Construction Sector Transparency Initiative (CoST), as well as IG/IN.

Finally, I would like to express my sincere thanks to staff of the EIB Group and external partners who reported suspicions of Prohibited Conduct. As a result, IG/IN was able to initiate and successfully conclude a large number of investigations in 2016. Those investigations, along with the various policy and other anti-fraud initiatives described in this report, allow the EIB Group to play its part in the global anti-corruption agenda and in particular to continue to combat fraud and corruption in its activities and operations.



Jan Willem van der Kaaij
Inspector General

² See "How to report fraud or corruption": <http://www.eib.org/about/accountability/anti-fraud/reporting/index.htm>

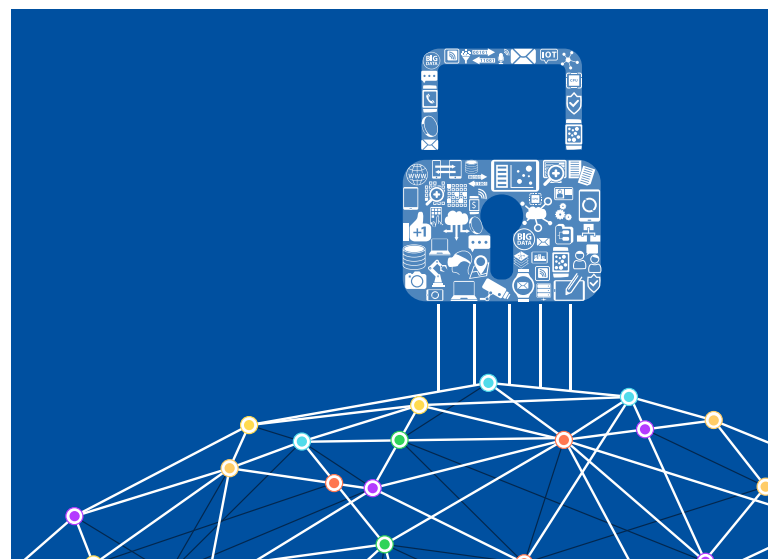
IG/IN's mandate

Corruption is a phenomenon with significant negative consequences, including a detrimental effect on financed projects. The European Investment Bank's "Policy on Preventing and Deterring Prohibited Conduct in European Investment Bank Activities"¹ as well as the European Investment Fund's "Policy on Preventing and Deterring Corruption, Fraud, Collusion, Coercion, Money Laundering, and the Financing of Terrorism in European Investment Fund Activities"² state that the EIB Group will not tolerate Prohibited Conduct (defined as corruption, fraud, collusion, coercion, obstruction, money laundering and terrorism financing) in its activities.

The fight against fraud and corruption is imperative; it can make a real difference to people's daily lives, and is sometimes the difference between life and death. For example: poorly constructed infrastructure can result in injury or death, or an ineffective water project can lead to a higher level of sickness amongst the poorest members of society who cannot afford medical treatment. Other examples of what could happen if the EIB is not sufficiently diligent to ensure that its funds are used for the proper purpose include: project officials misusing the funds earmarked for social housing for their own personal benefit to the detriment of those needing housing, or a road project not built to specification and needing higher maintenance than was budgeted for, thus leading to pressure to raise taxes in the country concerned.

“ IG/IN plays an important role throughout the project cycle by helping to prevent Prohibited Conduct where it has not yet happened, ensuring that any suspected Prohibited Conduct is reported, professionally investigating all appropriate cases, and helping to deter it from happening again.

IG/IN employs highly experienced investigators, prosecutors and other professionals with a range of different backgrounds, combining investigation skills, forensic audit and information analysis activities.



1 EIB's Anti-Fraud Policy available at: <http://www.eib.org/infocentre/publications/all/anti-fraud-policy.htm>

2 EIF's Anti-Fraud Policy available at: http://www.eif.org/news_centre/publications/anti_fraud_policy.htm

IG/IN's workload consists of:



Investigative activities, which make up the bulk of IG/IN's work (receiving, assessing, and investigating allegations of Prohibited Conduct involving EIB Group-financed activities or EIB Group members of governing bodies or staff);



Policy Work, which involves advice on the wording of the Bank's documentation and recommendations to Bank services with regard to Prohibited Conduct-related issues;



Training of EIB staff and awareness-raising on Prohibited Conduct-related issues. This includes raising awareness within the Bank and outside, liaising with other international organisations to determine whether common approaches are available, briefing senior management on key issues, providing IG/IN's perspective on issues facing the Bank and meeting with the President, the Vice-Presidents, the Management Committee and the Audit Committee and the EIF Audit Board to brief them on issues of particular concern; and



Proactive Integrity Reviews, which use a forensic methodology to identify Prohibited Conduct and other vulnerabilities in Bank-financed projects based on risk, rather than on a specific allegation.

IG/IN has administrative powers – it is not a law enforcement or criminal prosecutorial agency, although in appropriate cases its work results in referrals to national agencies for criminal investigation. The nature of IG/IN's work requires effective liaison and cooperation with national investigation, prosecutorial and anti-corruption bodies in the countries where the EIB Group operates.

Forensics

The rapid evolution of digital technologies creates many new challenges in the area of digital forensic investigation. Effective investigations are increasingly reliant on the technical ability and equipment to extract potentially available evidence from computer systems, storage and other electronic devices. It is therefore important for IG/IN to further develop its digital forensic investigation capacity.

Computer forensic work undertaken in 2016 continued to produce good results. In one case, IG/IN provided significant forensic support to a corruption investigation by a national agency and analysed a large amount of important digital information, leading to the arrest of two fraudsters and the identification of several projects being manipulated.



IG/IN 2016 Statistics at a glance

120 new allegations

27.5 % of cases in EU countries

82 missions

35.8 % of allegations due to fraud

53 % of allegations reported to IG/IN by staff

229 cases worked on in total

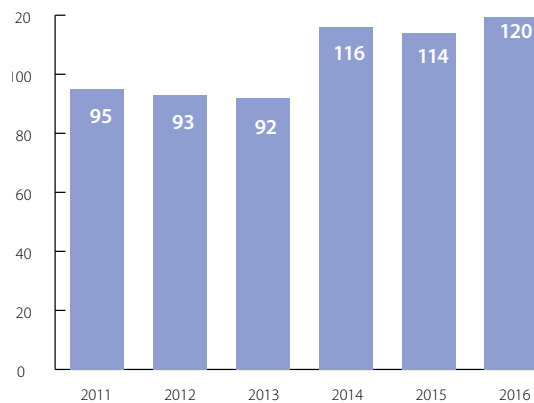
116 cases closed



Performance in 2016

IG/IN's core activity is the investigation of allegations of Prohibited Conduct in relation to EIB Group operations. Under the EIB's and EIF's Anti-Fraud Policies, IG/IN is the sole office mandated to investigate all allegations of corruption, fraud, coercion, collusion, obstruction, money laundering and terrorism financing. In the course of 2016, IG/IN registered 120 new allegations and worked on a total of 229 cases (which included "carry over" from the previous year). Incoming allegations were almost balanced by the number of cases closed (116) during 2016. Over the past four years, there has been an increase of around 30% in the number of matters referred to IG/IN for investigation. The cases referred in 2016 also included a number of matters which required a higher than average level of resources, due to the nature and complexity of those cases.

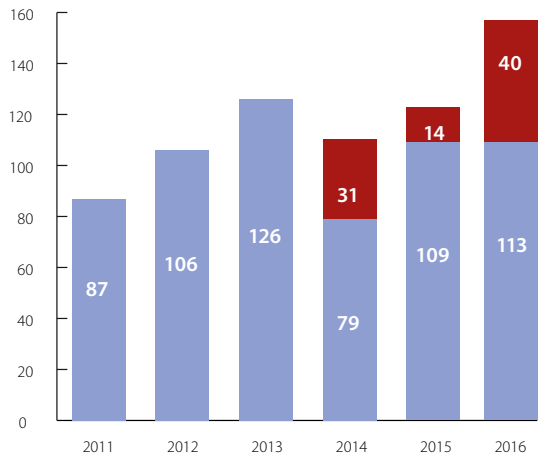
New allegations received between 2011 and 2016



Summary of case activity during 2016

EIB + EIF	2012	2013	2014	2015	2016
New cases received during the year	93	92	116	114	120
Cases closed during the year	74	72	132	115	116
Cases under investigation/monitoring at year-end	106	126	110	123	153
Cases under active investigation (as at 31 Dec)	-	-	79	109	113
Cases under monitoring (as at 31 Dec)	-	-	31	14	40

Cases remaining open at year-end



- Cases under monitoring
- Cases under active investigation

113 cases remained open at the end of 2016.

This diagram shows the number of investigation cases carried over from one year to the next. A carry over is, to some extent, inevitable because cases received in the concluding months of the year, for example, will not be finished at year-end. On the other hand, a considerable carry over might also point at some resource constraints.





IG/IN staff members conducted a total of 82 missions for investigative and other purposes during 2016, including visits to countries in the EU, Eastern Europe, Africa and Central America. This is a sizeable increase on 2015 (57 missions). Of the missions undertaken in 2016:

- 37 were staffed by more than one IG/IN staff member;
- 14 involved contact and cooperation with OLAF;
- 14 involved contact and cooperation with investigators from other IFIs; and
- seven were undertaken in pursuit of Proactive Integrity Reviews.

Timely reporting of suspected Prohibited Conduct can enable the investigation and any necessary remedial measures to take place as quickly as possible. However, in some cases, the reports of Prohibited Conduct do not directly concern the EIB and so are not further investigated.

Some examples of such situations are provided below:

Examples of complaints not investigated by IG/IN

Did not concern an activity financed by the EIB Group

The EIB monitoring department alerted IG/IN that prosecutors were investigating one of EIB's borrowers and had conducted a search at its headquarters.

After gathering relevant information, IG/IN concluded that the object of the investigation was limited to a project that the Bank had not financed. The case was closed with monitoring due to there being potential new operations with the borrower.

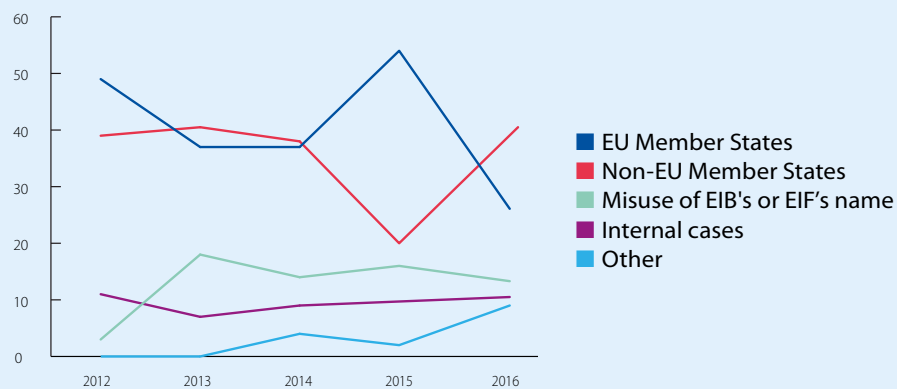
Did not concern Prohibited Conduct within the EIB Group

IG/IN received a complaint alleging special work privileges and favouritism concerning a staff member. After gathering relevant information in a preliminary review, it was concluded that there was a lack of credible evidence to suggest Prohibited Conduct falling within the scope of the Anti-Fraud Policy.

Analysis of 2016 data

Areas of allegations

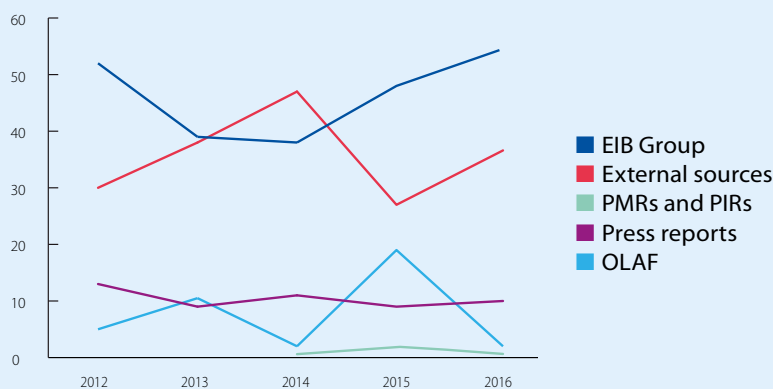
28% of new allegations related to operations in EU Member States, down from 53% in 2015.



Allegations are received from a wide range of sources, both internal and external. Allegations can be submitted via a dedicated “Investigations” email address¹, by a confidential fax to IG/IN or via a reporting link on the EIB website². This was made easier in 2016 by the translation of the reporting form and associated information pages, which are now available in 30 languages.

Five broad categories are IG/IN’s sources of allegations: EIB Group staff; external; IG/IN’s Proactive Media Reviews (PMRs) and Proactive Integrity Reviews (PIRs); other press reports; and OLAF. 53% of allegations received in 2016 were from EIB Group staff (up from less than 40% in 2014).

Sources of allegations



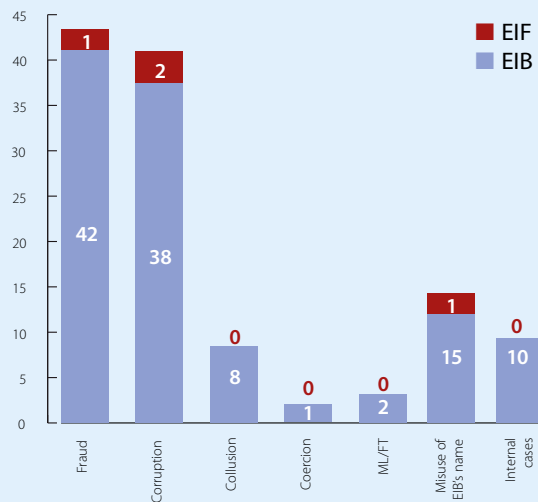
¹ The address is investigations@eib.org

² The reporting form is available in 30 different languages at: <http://www.eib.org/about/accountability/anti-fraud/reporting/index.htm>



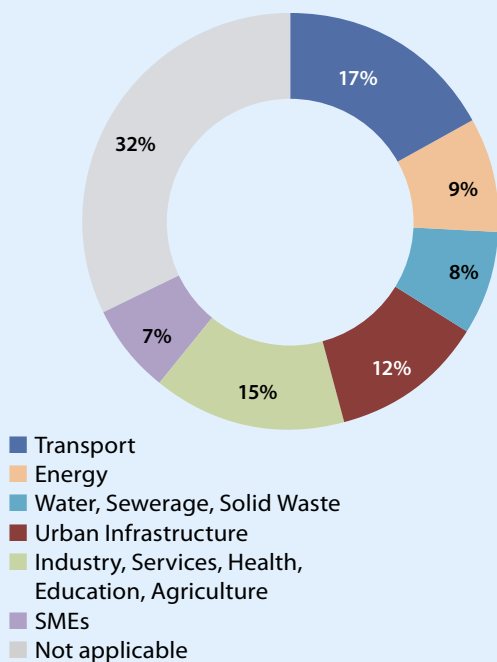
2016 Types of allegations

Fraud and corruption in relation to EIB Group operations are by far the most common types of allegation received by IG/IN.



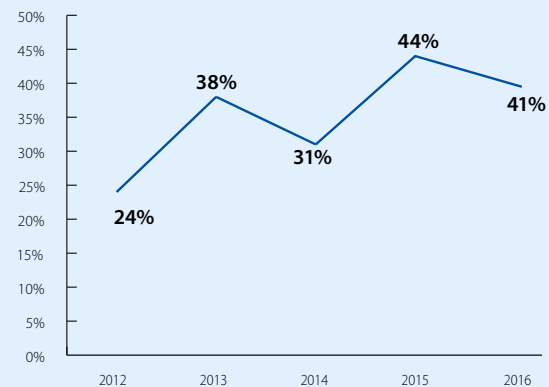
Referrals to national authorities are made in accordance with the EIB's Anti-Fraud Policy. IG/IN also regularly refers cases to OLAF; a number of cases concerning EIB projects are investigated jointly with OLAF and/or national agencies.

IG/IN Investigations by sector



The broad sectoral trends seen in 2014 and 2015 continued into 2016, with transport being the sector most frequently impacted by IG/IN's investigations.

Substantiated cases



116 cases were closed in 2016 of which 47 (41%) were found to be substantiated.

Case study

In addition to these statistics and in order to better illustrate the work of IG/IN, a number of case studies are provided below. While the Bank is committed to a presumption of disclosure and transparency, it also has the duty to respect professional secrecy in compliance with laws and the confidentiality of its investigative processes. In this context, IG/IN seeks the appropriate balance between transparency and confidentiality when disclosing information on cases it has investigated. Some of the cases below have been the subject of press releases by prosecution authorities, which enables IG/IN to provide more specific information than it usually would.

- ▶ **Region** Europe
- ▶ **Source** External source (press)
- ▶ **Red flags** Bribes

Collusion between several bidders

IG/IN received allegations concerning a case of collusion between several bidders in a project financed by the EIB involving the construction of a number of motorway sections. IG/IN approached the judicial authority investigating the case and obtained information from the national prosecutor of the country involved. The information obtained established that the director of the local state road agency had received a gift from one of the bidders in return for information on the cost estimation for the projects.

The investigation also revealed evidence of a scheme whereby key financial information concerning bid prices was disguised as a series of room numbers in communications between the colluding bidders. It subsequently emerged that the national authority could not bring the case to court because the facts were time barred. IG/IN analysed the information available and verified that the facts applied to a large number of projects involving EIB and EC-funded projects. IG/IN referred the issues involved to EU agencies competent for investigating the matter and regulatory agencies.



- ▶ **Region** Africa
- ▶ **Source** External source (informant)
- ▶ **Red flags** Non-competitive contract award

Corruption in public procurement

IG/IN received a complaint alleging serious corruption in relation to a public procurement process undertaken by the Lilongwe Water Board in Malawi. The Bank had signed a loan to Malawi for optimising available water resources and bridging the gap in water demand in Malawi's capital.

The Lilongwe Water Board is a 100% public entity and is part of the Malawi Ministry of Transport. One of those allegedly involved was a staff member of the project implementation unit.

Following consultation with other directorates, IG/IN quickly engaged with the Malawi Anti-Corruption Bureau (ACB), which has successfully collaborated on corruption cases with several other international organisations.

The joint operation which followed culminated in a number of search warrants and two arrests. IG/IN has provided active support to national investigators on this case.¹

¹ See <http://www.eib.org/infocentre/press/news/all/malawi-authorities-uncover-corruption-with-eib-help.htm>

Proactive Integrity Reviews

In the fight against fraud and corruption, IG/IN also uses its own in-house risk assessment methodology to identify operations which have not been the subject of an allegation but could be vulnerable to issues related to Prohibited Conduct. These operations are then the focus of a Proactive Integrity Review (PIR), which consists of a forensic anti-fraud audit. Projects which are subject to PIRs tend to be highly complex or implemented in a difficult environment, factors that increase the risk of exposure to fraud and corruption. PIRs seek to determine if, how and to what extent fraud and corruption may be present in an EIB-financed project and to propose improvements to internal processes and controls.

How does a PIR work?

IG/IN selects projects for an in-depth review using a risk assessment exercise. The projects selected have not normally been the subject of an allegation but are often implemented in challenging conditions, or in difficult jurisdictions in which corruption is widespread, or where there is evidence of a higher risk of fraud. Once identified, IG/IN analyses the project to identify “Red Flag” indicators of fraud and corruption through a detailed review of project implementation, in particular by checking: (i) the procurement processes followed by the borrowers or promoters on the EIB’s Investment or Framework Loans; (ii) the quality of the procured works and services; or (iii) credit procedures followed by financial intermediaries (banks, public support lending agencies) on the EIB’s Multi-Beneficiary Intermediated Loans (MBILs); and (iv) the eligibility and actual use of loans by the final beneficiaries (e.g. SMEs) on MBILs.

What is the result of a PIR?

The PIRs conducted by IG/IN have uncovered cases of fraud, corruption or other irregularities in the use of EIB funds that the Bank did not otherwise know about. The PIR usually makes specific recommendations, and remedial measures are required to address gaps and weaknesses. In addition, if strong indications of fraud are identified, an investigation can be launched by IG/IN or the findings can be referred to local law enforcement, prosecutors and/or judiciary agencies.

PIRs and investigations

A PIR is not an investigation, but may lead to one. While the investigation function primarily reacts to allegations reported to IG/IN or identified in the press, PIRs constitute an important proactive approach to detect Prohibited Conduct. The major differences between a PIR and an investigation are: i) an investigation is opened on the basis of an allegation of Prohibited Conduct while a PIR is launched as a result of a risk assessment or a request from services; and ii) the PIR fieldwork is performed by external consultants (forensic auditors and investigators) under the direction of IG/IN investigation staff.

In May 2008, the EIB’s Management Committee approved the proactive initiatives proposed by IG/IN and suggested that initially IG should aim at three to four PIRs per year. Due to resource constraints, IG/IN averages around two PIRs per year.



PIR in East Africa

In 2016, IG/IN finalised a PIR in an East African country.

The PIR began after the publication of a negative audit report by the national public procurement authorities, which found irregularities in procurement for a water network expansion project financed by the EIB and other IFIs.

In particular, the EIB PIR focused its analysis on project construction. The PIR team reviewed the bidding documents and found similarities in the submissions of two successful suppliers, strongly indicating collusion between them. The following red flags were identified in the bid submission documents as well as through a visit to the contractor's premises by the PIR team:

- ▶ Same offices and shared adjoining rooms – the access to Company A was through Company B's offices;
- ▶ Same bid submission form and style of document, including section dividers, font and style;
- ▶ Similar tax compliance certificates (dated the same day, same errors on both sets of documents, date stamps in the same place, same signatures in the same locations);
- ▶ Same assets and equipment list, including description make and year;
- ▶ Common staff: six out of eight names listed as staff in the proposed personnel lists are common to both bids.



Figure 1. Project Building

Apart from the red flags identified in the bid documents, the PIR revealed deficiencies in the procurement process. For example, key tender documents were missing and contracts were split into lots awarded to several bidders, although the original tender documents made no reference to the split.

Further analysis undertaken by the PIR team showed that unit prices in the contracts awarded were, on average, 460% higher than similar items built for another utility in the same country, during similar time periods.

In addition, a detailed analysis of the completion certificates showed that each contractor had over-claimed for the building, some by a greater margin than others. For example, the colluding companies both claimed for building a storm drain of 10 metres, which is over three times longer than the average length of 3 metres found by the PIR team. Finally, 39% of the buildings visited by the PIR team were identified as being not operational.

Based on these findings, the EIB concluded that spending on the construction was ineligible and requested a prepayment of the EIB loan and an EU grant in the amount which was used by the promoter for the construction.



Figure 2. The water pipes had no connection



Figure 3. Broken pipe, not submerged as required by terms of reference

Policy initiatives

A large number of integrity-related issues required IG/IN's input in 2016, including:

- ▶ Advice on the wording of Bank documentation and recommendations to Bank services with regard to Prohibited Conduct-related issues;
- ▶ Training of EIB staff on fraud and corruption-related issues;
- ▶ Raising awareness on fraud issues more generally within the Bank and outside;
- ▶ Liaison with other international organisations to (i) discuss issues of common concern; and (ii) determine whether common approaches are available;
- ▶ Briefing senior management on key issues, providing IG/IN's perspective on issues facing the Bank and meeting with the President, Vice-Presidents and the Management Committee;
- ▶ Regular meetings with the EIB's Audit Committee and EIF's Audit Board to brief them on issues of particular concern;
- ▶ Negotiating settlements and working to implement the Exclusion Procedures; and
- ▶ Updating policies and procedures to encapsulate lessons learned as appropriate.

Administrative Cooperation Arrangement

On 31 March 2016, the EIB and OLAF signed an Administrative Cooperation Arrangement to provide the practical framework within which both will cooperate in cases of mutual interest in the future. This arrangement is the result of comprehensive discussions between the EIB, in particular IG/IN and the Legal Directorate, and OLAF.





Memoranda of Understanding

In accordance with the EIB Anti-Fraud Policy, cooperation arrangements may be signed with law enforcement and anti-corruption agencies to facilitate the exchange of information on cases of mutual interest concerning suspected prohibited activities.

In 2016, IG/IN made increased efforts to focus on cooperation with national law enforcement agencies.

In 2016, MoUs were put in place in Italy, Latvia and Malawi to facilitate the exchange of information on cases of mutual interest. Other cooperation agreements are in preparation for 2017.





“The fight against corruption needs greater international cooperation more than ever. Building a strong partnership throughout Europe is a key step in facing this difficult task,” said ANAC Chairman Raffaele Cantone.

“In all its activities the EIB, as the EU bank, applies the criteria of absolute transparency and zero tolerance for acts of corruption, which ultimately generate an additional burden for taxpayers and result in poorly designed or implemented projects: the agreement signed today with the Italian authority meets these criteria perfectly,” remarked EIB Vice-President Dario Scannapieco.

ITALY

The European Investment Bank and the Italian Anti-Corruption Agency (ANAC) finalised an agreement for combatting fraud and corruption¹. The MoU was signed in Rome on 13 September 2016 by EIB Vice-President Dario Scannapieco, the EIB Inspector General Jan Willem van der Kaaij and ANAC Chairman Raffaele Cantone.

The MoU allows IG/IN and ANAC to share information obtained during their respective investigations, to cooperate and assist each other in cases of common interest and to provide mutual technical assistance.

LATVIA

The signature of the MoU between the European Investment Bank and the Corruption Prevention and Combating Bureau of the Republic of Latvia (KNAB) took place in Riga on 15 November 2016. The document finalised an agreement for combatting fraud and corruption and was signed by EIB Inspector General Jan Willem van der Kaaij and the Head of the Fraud Investigations Division, Bernard O'Donnell, on behalf of the Bank, and KNAB Director Jaroslavs Streļčenoks.

The MoU will allow KNAB and IG/IN to share information obtained during their respective investigations, to cooperate and assist each other in cases of common interest and to provide mutual technical assistance. The MoU reflects IG/IN strategy to enhance cooperation with its judicial or administrative counterparts worldwide.



KNAB Director Jaroslavs Streļčenoks (left) and Bernard O'Donnell (right), Head of IG/IN Division

¹ See <http://www.eib.org/infocentre/press/releases/all/2016/2016-202-anac-eib-framework-agreement-on-exchanging-information.htm>



MALAWI

During a mission to Malawi in December, IG/IN's Head of Division signed a formal cooperation agreement between the European Investment Bank and the Malawi Anti-Corruption Bureau (ACB) for longer-term cooperation on EIB-related projects where necessary, under which IG/IN will render further assistance to ACB in accordance with the EIB's Anti-Fraud Policy.

The agreement was signed at the time of a second case in which IG/IN has engaged with ACB. In September 2016, IG/IN worked with ACB in an investigation relating to allegations of serious corruption in a much needed water project for residents of the capital, Lilongwe.

The MoU was signed in Blantyre on 14 December 2016 by EIB Inspector General Jan Willem van der Kaaij, the Head of the Fraud Investigations Division, Bernard O'Donnell, and the Director of the Legal Department (Corporate), Barbara Balke, on behalf of the Bank, and ACB Director Lukas Kondowe.



Members of IG/IN meet with ACB officials. From left to right: Marco Loretto (Investigations Coordinator, IG/IN); Alex Boone (Case Intake and Analysis Coordinator, IG/IN); Bernard O'Donnell (Head of Division, IG/IN); Reyneck Matemba (Deputy Director General, ACB); and Alan Bacarese (international anti-corruption advisor)

Integrity clauses

In order to address issues of Prohibited Conduct, integrity clauses are inserted in EIB finance contracts and other contractual documents. These standard clauses are consistent with those used by other IFIs and provide access to books and records, along with requirements for reporting Prohibited Conduct.

These clauses are a vital tool without which the Bank's ability to adequately address issues of Prohibited Conduct would be severely hampered.

In cases where the clauses need to be adapted to the specific circumstances of a project, IG/IN is consulted on the acceptability of minor changes while safeguarding the substance and effectiveness of the clauses.



Exclusion Procedures

During 2016, IG/IN staff worked towards implementation of the Exclusion Procedures. In 2015, the exclusions package was finalised internally within the EIB. However, significant amendments were made to the Financial Regulation¹ in late 2015, which prevented the EIB from implementing its proposed process and required substantial revision of the documentation, which is still underway.

EDPS Inspection

Following an earlier inspection at the EIB, in 2016 the European Data Protection Supervisor issued its report on the processing of personal data in the context of IG/IN's investigations. The analysis of the cases selected by the EDPS did not reveal any breach of the Regulation in relation to transfers. In addition, no issue was identified in the context of forensic operations and data security.

IG/IN is working to implement EDPS recommendations, including further improvements to the documentation on transfers of personal data.

Transparency International's 2016 Report on the EIB

In 2016, Transparency International undertook a review to assess the transparency, integrity and accountability mechanism in place at the EIB². The report commends the Bank for its high level of transparency, as well as for its high standards on several areas related to integrity and accountability. The report also identifies areas for improvement. In particular, TI recommended that the EIB should provide a dedicated space on its website where debarred entities are listed. The report will be taken into account when the package of material to implement the Exclusion Procedures is being finalised.

¹ Regulation No 2015/1929 of the European Parliament and of the Council of 28 October 2015 amending Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union, available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L._2015.286.01.0001.01.EN

² Transparency International, "Investing in Integrity. Transparency and Accountability of the EIB", published on 15 November 2016



Training on Fraud Awareness and Ethics Integrity

The Fraud Investigations Division conducts training sessions for staff on “Control and Accountability Mechanisms” and “Fraud Awareness”. In 2016, IG/IN continued its efforts to provide awareness training to operational staff. This training has been running since 2009 and by the end of 2015 a total of 1,431 current staff from all Directorates had participated in the course. During 2016, 215 staff members attended the Fraud Awareness training. A follow-up e-learning “refresher” module on fraud and corruption continues to be rolled out across the EIB.

In 2016, IG/IN also worked with Personnel and other services to implement a new half-day Ethics & Integrity training session for newcomers.

The EIB’s training programmes equip staff members to recognise the red flags of fraud and corruption and help to maintain the Bank’s reputation and image. As fraud and corruption can exist at any stage of a project, it is essential to look at red flags at all these stages, from concept clearance and eligibility checks through approval and signature, the procurement process, right through to the actual disbursement of funds and implementation of project activities.

In recognition of the annual OECD Integrity Week, a reminder was sent to all staff on 18 April 2016 reiterating the EIB’s zero tolerance policy and the obligation of staff to report suspicions of fraud, corruption and Prohibited Conduct.



Policy initiatives

Conferences and International Cooperation

In addition to raising awareness within the EIB, IG/IN staff played an important role in discussing fraud and corruption-related issues and possible solutions thereto in various international arenas during 2016, including:

- **OECD Anti-Bribery Ministerial Meeting, 16 March, Paris**
- **Construction Sector Transparency Initiative (CoST) seminar, 13 April, Luxembourg**

The EIB was represented at this year's meeting hosted by the OECD, a Ministerial Meeting on combatting corruption, by the Head of IG/IN, Bernard O'Donnell. The OECD Anti-Bribery Convention¹ was ratified 17 years ago and law enforcement officials have been meeting annually for almost ten years to further develop cooperation and share best practice in the fight against corruption. A key theme of the conference was the need to ensure adequate protection of whistleblowers².

Representatives of the Construction Sector Transparency Initiative (CoST) presented their organisation's mission to help deliver better value from public infrastructure through good governance to achieve positive economic and social development outcomes. There was also a presentation by the European International Contractors organisation. The event, an inter-service initiative, was introduced by the EIB Inspector General, Jan Willem van der Kaaij, while Neil Valentine, Head of the Strategic Roads Division, moderated the Q&A session and made a closing summary.

1 The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is available at : <http://www.oecd.org/corruption/oecdantibriberyconvention.htm>
2 The EIB Whistleblower Policy can be found at <http://www.eib.org/infocentre/publications/all/eib-s-whistleblowing-policy.htm>





- **International anti-corruption practitioner conference, 14 June, Paris**

The Inspector General, Jan Willem van der Kaaij, and the Deputy Head of Division, Duncan Smith, participated in the international anti-corruption practitioner conference introduced by French President François Hollande to discuss the overview of corruption as a global phenomenon and speedier resolutions through settlements and administrative sanctions.



- **Cambridge International Symposium on Economic Crime, 6 September, Cambridge**

“Who in a business organisation should in your opinion be held accountable for abusive conduct on the part of the business’s employees, agents and possibly customers” was the topic of the presentation made by the Deputy Head of Division, Duncan Smith, at the 35th Cambridge International Symposium on Economic Crime.

“ It is important not only to hold the wrongdoers responsible but also to learn the lessons and help borrowers implement remedial measures in order to get the projects affected back on track.
*Duncan Smith,
 Deputy Head of Division*

- **Conference of International Investigators, 5-7 October, Vienna**

In October, IG/IN staff members participated in the 17th Conference of International Investigators. This annual conference was created with the idea of enabling and enhancing close cooperation and exchange of best practice among investigative offices of participating organisations and agencies within the United Nations system, multilateral development or investment banks and funds, quasi-governmental agencies and commissions. Topics discussed usually cover a wide range of issues and new innovations on fraud and corruption, including:

- Working with bilateral aid agencies and country anti-corruption bodies;
- Fraud in aid and reconstruction programmes;
- Investigation processes;
- Opportunities for fraud prevention;
- Investigation case studies in some thematic areas;
- Counter-fraud information sharing;
- Developments in technology;
- Forensic IT investigations; and
- Implementing effective sanctions and deterrence mechanisms.





- **Ecole Nationale d'Administration (ENA) CISAP Fighting Corruption 2016, 14 November, Paris**

"Investigate, Sanction and Prevent Fraud and Corruption in an International Context" was the topic of a presentation given at ENA in Paris, France, by the Deputy Head of Division, Duncan Smith. The seminar was attended by senior public sector officials directly concerned with activities or institutions that are impacted by fraud and corruption in public procurement processes.

- **International Anti-Corruption Conference, 1-4 December, Panama City**

The Head of Division and the Deputy Head of Division took part in December in the world's largest anti-corruption conference organised by Transparency International. More than 1,600 people from around 130 countries participated in this 17th conference held under the title: *"Time for Justice – Equity, Security, Trust"*. Deputy Head of Division Duncan Smith joined a panel with other MDB investigation functions (from the EBRD, ADB, World Bank and IADB) entitled *"Enabling Integrity through Incentives – Innovation and International Cooperation: MDBs' Perspectives on Successes and Challenges in the Global Fight Against Corruption"*.

In addition, to take advantage of their presence in Panama, Heads of Investigation of the MDBs met separately to discuss a number of issues of relevance and common concern, including efforts to refine and harmonise the definition of obstruction and to coordinate approaches to cooperation with national authorities.



Commemoration of International Anti-Corruption Day, 9 December



For the first time, IG/IN celebrated International Anti-Corruption Day by hosting a workshop that was provocatively titled “Fraud and Corruption: who cares?” This initiative was intended to be a good “wake-up call” for EIB staff members and to raise awareness about fraud and corruption. Alan Bacarese, from the Basel Institute on Governance (and currently Advisor to the Anti-Corruption Bureau of Malawi), focused his presentation on corruption outside the EU. Miroslav Minev, from the Organised Crime and Drugs Policy Unit of the European Commission, presented anti-corruption policies at EU level.

On the same day, IG/IN representatives participated in a stakeholder engagement workshop on the integrity of large-scale projects in the Brussels office. The workshop, organised by the EIB’s Civil Society Division, discussed the role of civil society organisations in reinforcing the integrity of large-scale projects.

This commemoration underlined the EIB’s policy, procedures and actions against fraud and corruption. The workshop allowed IG/IN to share information and most importantly reiterate that the timeliness of reporting is important.





European Investment Bank
The EIB bank

The Fraud Investigations Division of the Inspectorate General (IG/IN)

is pleased to announce the following workshop:

FRAUD AND CORRUPTION: Who Cares?
9th December
to mark the
International Anti-Corruption Day

When:
9 December 2016
12:00 - 14:00

Where:
WKI,
Board room

Speaker:
Alan Bacarese,
Director of Anti-Corruption Asset Recovery at Stream House AG and Advisor to the Anti Corruption Bureau of Malawi.

Alan Bacarese specializes in corruption, money laundering, mutual legal assistance and fraud, with a wealth of experience as a former UK senior Crown Prosecutor and the first Head of Legal and Case Consultancy at the International Centre for Asset Recovery, Basel, Switzerland.

He worked within the UK's Crown Prosecution Service (CPS) on large-scale international cases in many countries and led on domestic and international corruption and on high profile human rights issues.

IG/IN invite you all to participate in this event!
A sandwich lunch will be provided.

Registration is mandatory by email before 5 December to IG/IN.events@eib.org

EIB 2016. 01/12/2016



The above image is a flyer circulated to all EIB Group staff to publicise International Anti-Corruption Day. It was accompanied by pens and pads with IG/IN's contact details, which were distributed to all EIB Group offices (including external offices around the world). On the same day, the President made a video address to all staff, highlighting the need for staff to be aware of the risk of corruption and reminding them of the requirement to report any allegations or suspicions of Prohibited Conduct to IG/IN.

Looking ahead - 2017 and beyond

As you will have read earlier in this report, 2016 was a very busy year for the Fraud Investigation Division; we anticipate 2017 being equally if not more busy. In particular, we will seek to build a forensic capacity to provide the technical capability and equipment to strengthen IG/IN's digital and forensic investigations. At the same time, we will continue to develop our in-house case management system to ensure more efficient assessment of incoming reports and to track cases in which full investigations are open.

IG/IN will also continue to work towards full implementation of the EIB Exclusion Procedures, reviewing and adapting the framework to the amended EU Financial Regulation.

If resources permit, IG/IN will seek to reduce the backlog of cases, whilst at the same time endeavouring to further improve cooperation by increasing the number of Memoranda of Understanding finalised with national authorities.

As in previous years, IG/IN will continue to inform other services in the EIB Group of the lessons learned from the investigations and to ensure that the Group's anti-corruption framework meets the challenges presented. This includes organising a series of awareness-raising events, and continuing to provide fraud awareness and ethics training for newcomers in the EIB Group.

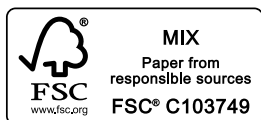
On the proactive side, IG/IN has begun a review to determine what the appropriate coverage should be. This review may result in an increased number of projects and activities being subjected to a PIR.

The EIB Group will continue to play an active role in the fight against fraud and corruption. To do this effectively, everyone has a role to play: EIB staff should report suspicions according to the Anti-Fraud Policy and the Code of Conduct; contractors, consultants and suppliers should adopt a "no-bribery" approach; public institutions and agencies should implement strengthened anti-corruption and governance frameworks. An effective framework to prevent, detect and sanction fraudulent and corrupt conduct saves money, improves project effectiveness and creates jobs in Europe and around the world.

IG/IN will continue to rigorously assess all cases referred to it and to professionally investigate matters as appropriate.

IG/IN will also seek further and strengthened cooperation arrangements with national and international investigation, prosecution and anti-corruption offices in the joint fight against fraud, corruption and all other forms of Prohibited Conduct.





The EIB wishes to thank the following promoters and suppliers for the photographs illustrating this report:
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The EIB Group consists of the European Investment Bank and the European Investment Fund.

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Anti-Fraud Activity Report **2016**