



European Investment Bank Group

Annual Report on Anti-Fraud Activities - 2014



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Inspectorate General
Fraud Investigations Division

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Message from the President



The European Investment Bank (EIB) has a legal duty under its Statute to ensure that its funds are employed as rationally as possible in the interests of the European Union. As always, our moral obligation, as the world's largest financier of public procurement, is also to ensure that funds are used in the most transparent way possible. The fight against fraud and corruption is integral to what we do. I am therefore pleased to present the European Investment Bank Group's 2014 Annual Report on anti-fraud activities, carried out by the Inspectorate General's Fraud Investigations Division (IG/IN) which spearheads EIB's work on investigations and prevention of fraud and corruption.

The corruption climate remains a challenging one. In my foreword to last year's annual report, I referred to research cited by the European Commission showing more than 30 per cent of companies in the EU Member States which had participated in public procurement believed corruption had prevented them from winning a contract; and half of all companies reportedly believed that corruption in public procurement managed by national or regional/local authorities is widespread.¹

¹ Report from the Commission to the Council and the European Parliament: EU Anti-Corruption Report (3 February 2014).

The report led to an increased focus in the European Parliament and civil society.² More recently at the end of 2014, an OECD report provided one of the first systematic analyses of cases of bribery of foreign public officials between 1999 – 2014, and found that, where bribery was involved, it averaged over 10 per cent of the total transaction value.³

There is a belief in some quarters that corruption is something which predominantly happens outside EU Member States and that reliance on national authorities within the Union is sufficient to protect funds. However, the OECD report noted above shows that bribery and corruption affect rich countries as well as developing ones and fewer than half the EU Member States are ranked among the 30 states worldwide perceived as least corrupt.⁴

With annual lending (signed commitments) in 2014 of over €76 billion and total disbursements of €63.7 billion, and especially given some of the environments and sectors in which the Bank operates, it is inevitable that EIB funding will unfortunately, at times, be a target for fraud and corruption. The implementation of the Investment Plan for Europe will no doubt bring additional challenges, but I assure you that we will not compromise on our commitment to zero tolerance of fraud and corruption. As part of this commitment, in 2015 all directorates will be working together in order to fully implement the Bank's exclusion system which will allow the first exclusions of companies from EIB business for involvement in fraud and corruption.

The single most effective way of preventing fraud and corruption is a solid reporting system for those involved in the projects and an effective investigative capacity to follow-up on such reports. The IG/IN team rely heavily on assistance from staff in all

² <http://euobserver.com/justice/126846>

³ OECD (2014), *OECD Foreign Bribery Report: An analysis of the crime of bribery of foreign public officials*, OECD Publishing. <http://dx.doi.org/10.1787/9789264226616-en> ("OECD Foreign Bribery Report (2014)")

⁴ Ranking according to the 2013 Transparency International Corruption Perception Index <http://www.transparency.org/cpi2013/results>. Figures are based on surveys of citizens relating to their own countries.

areas in the Bank. In 17% of cases listed in the OECD report above, the corporate management of the entity in question was informed of the corruption by internal whistle-blowers. The requirement for EIB staff to report suspicions of fraud and corruption to IG/IN is an integral part of their obligations as staff members. A new e-learning programme on fraud and corruption awareness which was rolled out in the summer of 2014, and which all staff will be expected to undertake, will be helpful in reminding staff of what to look for and how to report it.

Once again, I take this opportunity to thank all those, outside and inside the EIB Group, who are dedicated to combating fraud and corruption and in particular those who have reported suspicions of fraud and corruption to the Bank which has helped the EIB Group to ensure that its funds are used for the purposes intended.

Werner Hoyer
EIB President

Executive Summary



In 2014, the Fraud Investigations Division (IG/IN) received a significantly increased number of allegations compared to previous years (116, which is 25% higher than the average for 2011-2013). The number of cases concluded was also significantly higher than in previous years (132, which is 80% higher than the average for 2011-2013). This resulted in an overall reduction in the backlog of cases by 13%.

Overall, 31% of cases closed in 2014 resulted in a finding that the allegation was at least partly proven, which is similar to 2013 (38%). As in 2013, this reflects a significant number of cases involving the misuse of the EIB/EIF names and staff identities. IG/IN made 31 referrals – either to national law enforcement, judicial authorities and/or administrative authorities (both inside and outside the EU), or to other parts of the Bank – to pursue appropriate follow-up. In some cases, this exchange of information and cooperation has worked very effectively; however, cooperation from national authorities (including those inside the EU) varies considerably.

IG/IN staff members conducted a total of 64 missions for investigative and other purposes during 2014.

Non-Casework: IG/IN undertook 108 non-casework initiatives and loan-related issues in 2014 compared to 124 in 2013. (There were 117 in 2012 and 96 in 2011). These

included substantial work on implementing EIB's Exclusion Procedures and Operating Procedures for the Exclusion Committee, as well as work on updating the EIF's Anti-Fraud Policy.

In 2014, IG/IN undertook further Proactive Integrity Reviews and a Proactive Media Review to look for and identify early warning 'red flags' of fraud and/or corruption. In addition, IG/IN worked closely with a number of other agencies, including OLAF and the other IFIs, on investigations and policy issues. Mandatory Fraud Awareness Training sessions also continued for EIB staff, along with the roll-out of an e-learning course.

Raising Awareness: The staff of IG/IN have also continued to raise awareness of fraud and corruption issues inside and outside EIB by participating in various training and conference events around the world. A more direct deterrent effect allied to awareness raising comes from IG/IN undertaking timely and efficient investigations of Borrowers, contractors and suppliers, and Bank staff.

Looking ahead to 2015, IG/IN will focus on implementing the Bank's Exclusion Procedures and broadening links with prosecuting authorities to enhance its investigation capacity. The Investment Plan for Europe will challenge all parts of the Bank but IG will remain vigilant to try to ensure that greater appetite for risk does not translate into the misuse of funds.

To demonstrate accountability, the EIB will again publish this year's Annual Report on its website, as it has done for many years now.

As Inspector General, I am very grateful for the support of the Audit Committee, President and Vice Presidents and all staff in EIB, including the dedicated and professional staff in IG/IN, in our collective effort to combat fraud and corruption in EIB activities and operations.

Jan Willem van der Kaaij
Inspector General

1. Introduction

As mentioned in last year's annual report, the European Commission estimated in early 2014 that the cost to the EU economy of fraud and corruption was EUR 120 billion per year.⁵ The report noted that risk of fraud and corruption is particularly acute in public procurement, which is an important aspect in EIB lending. The report also highlighted the insufficient anti-corruption procedures and institutions of some Member States to protect that lending. The report reflected research estimating the direct costs of corruption in public procurement in five sectors (road and rail; water and waste; urban/utility construction; training; and research and development) in eight Member States in one year alone as between EUR 1.4 billion - EUR 2.2 billion and a probability that certain types of infrastructure would be affected by fraud and corruption ranging from 11-21% (road construction) to 26-41% (construction of waste water plants).⁶

An OECD report issued in December 2014 has reinforced these findings. It analysed cases of bribery of foreign public officials between 1999 – 2014 and provided some valuable additional data. It found that the bribes averaged over 10% of the total transaction value. Two-thirds of the foreign bribery cases occurred in four sectors: extractive (19%); construction (15%); transportation and storage (15%); and information and communication (10%). 43% of the cases of bribery of foreign officials cited in the OECD report related to officials in countries which rate High or Very High on the UN Human Development Index. While the report acknowledges that there could be many reasons for this outcome, it does confirm that corruption is not restricted to developing countries - rich countries, including EU Member States, are also at risk.⁷ While it may be tempting to assume that lending to major international corporations, particularly those overseen by strong regulatory systems, is risk-free from a corruption perspective, this is unfortunately not always the case. Seven of the top ten enforcement actions to date under the US Foreign Corrupt Practices Act involve companies from EU Member States (the other three being US and Japanese companies).⁸

The OECD report states:

Corruption, and the perception of corruption, erodes trust in governments, businesses and markets. In the aftermath of the greatest financial crisis of our time, we need to rebuild that trust more than ever before. Corruption also undermines growth and development. On the one hand, businesses forego innovation and competitiveness for bribery. On the other hand, individuals within governments divert funds for their own personal use that should be used to promote the well-being of people".⁹

The OECD report goes on to say:

[T]he true social cost of corruption cannot be measured by the amount of bribes paid or even the amount of state property stolen. Rather, it is the loss of output due to the misallocation of resources, distortions of incentives and other inefficiencies caused by corruption that represent its real cost to society."¹⁰

The OECD report highlighted the important work of the Multilateral Development Banks in debarring companies that were found to have engaged in prohibited conduct, including corruption, in the context of their projects, as this contributes to addressing some of the

⁵ Report from the Commission to the Council and the European Parliament: EU Anti-Corruption Report (3 February 2014). The report notes that 'The cited figure is based on estimates by specialised institutions and bodies, such as the International Chamber of Commerce, Transparency International, UN Global Compact, World Economic Forum, Clean Business is Good Business, 2009, which suggest that corruption amounts to 5% of GDP at world level. See also the Commission Communication on Fighting Corruption in the EU of 6 June 2011.

⁶ 'Identifying and Reducing Corruption in Public Procurement in the EU – Development of a methodology to estimate the direct costs of corruption and other elements for an EU-evaluation mechanism in the area of anti-corruption', 30 June 2013, PricewaterhouseCoopers and ECORYS, p.185.

⁷ OECD Foreign Bribery Report (2014).

⁸ <http://www.fcpablog.com/blog/2014/12/23/with-alstom-three-french-companies-are-now-in-the-fcpa-top-t.html#sthash.sQtDOscv.dpuf>

⁹ OECD Foreign Bribery Report (2014)

¹⁰ G20/OECD (2013), Issues Paper on Corruption and Economic Growth

(www.oecd.org/g20/topics/anti-corruption/issues-paper-on-corruption-and-economic-growth.pdf)

deficiencies in excluding these companies from competing for contracts at a national level.¹¹ While EIB does not automatically exclude companies simply on the basis that they have been sanctioned by other entities, the EIB Exclusion Procedures will provide another tool for the Bank in seeking to deter those who would misuse EIB funds and keeping its funding away from those who have previously misused it.

Set against this challenging background, this report will describe the role that IG/IN played during 2014 in the area of anti-corruption work. It will provide information on its investigative activities, as well as its initiatives to prevent fraud and corruption, collusion and coercion from occurring in its financing activities.

2. Background

The Fraud Investigations Division (IG/IN) is one of four Divisions making up the Inspectorate General (IG) of the European Investment Bank (EIB) Group, along with Internal Audit, Operations Evaluations and the Complaints Mechanism.

IG/IN engages in a variety of activities to protect the Bank's finances and reputation. These include investigations of allegations of fraud and corruption in Bank-financed projects; proactive efforts to identify actual fraud or potential vulnerabilities; policy work, such as advising on wording of Bank documentation, liaison with integrity departments of other international institutions, and advice to colleagues across the services on addressing fraud and corruption-related issues; and information gathering, to support the previous three activities. There is significant cross-fertilisation between these four pillars. Proactive work uncovers concerns which lead to investigations; investigation findings and recommendations lead to policy changes; and all three require information support.

Reports on IG/IN's findings on EIB-financed projects are made through the Inspector General to the President and to the Audit Committee. In the case of the European Investment Fund (EIF), the reports go to the Chief Executive, the Deputy Chief Executive, the Chairman of the Board of Directors and the Audit Board of EIF. In both institutions, the External Auditors are also informed of developments. In addition, IG/IN also contributes to the Bank's annual Sustainability Report.

The President and the Management Committee are regularly informed of developments, investigative findings and recommendations in IG/IN investigations in accordance with the Anti-Fraud Policy and Procedures. Moreover, the Head of Division and the Inspector General brief the Audit Committee of the Bank (as well as the Audit Board of the Fund) on a quarterly basis on important allegations and trends and progress in ongoing investigations. These briefings focus on cases with a high likely impact on the Bank's activities and on prevention and deterrence.

3. Investigations

IG/IN investigates allegations of suspected fraud, corruption, coercion and collusion from any source (inside or outside the EIB Group) in EIB and EIF operations and activities and reports through the Inspector General directly to the President. These allegations could include for example:

- allegations of collusion among bidders in an EIB-financed procurement process;
- corruption in the award of a contract by a bidder, government officials and/or intermediaries;
- fraud perpetrated by sub-contractors in the implementation of a contract; and
- misconduct by fund managers and/or staff members of the EIB Group.¹²

¹¹ OECD Foreign Bribery Report (2014).

¹² Breaches of the Code of Conduct are normally handled by the Office of the Chief Compliance Officer. Cases of misconduct which are dealt with by IG/IN normally concern misconduct where there is some element of fraudulent behaviour.

The following definitions, harmonised with the IFIs, have been incorporated into EIB's Anti-Fraud Policy and/or Exclusion Procedures:

- a **corrupt** practice: the offering, giving, receiving or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party;
- a **fraudulent** practice: any act or omission, including a misrepresentation that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;¹³
- a **coercive** practice: impairing or harming, or threatening to impair or harm, directly or indirectly, any part or the property of the party to influence the actions of a party;
- a **collusive** practice: an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.¹⁴
- an **obstructive** practice: (a) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (b) acts intended to materially impede the exercise of the EIB's contractual rights of audit or access to information or the rights that any banking, regulatory or examining authority or other equivalent body of the European Union or of its Member States may have in accordance with any law, regulation or treaty or pursuant to any agreement into which the EIB has entered in order to implement such law, regulation or treaty.¹⁵

In addition, EIB's Anti-Fraud Policy also includes provisions against **money laundering** and **terrorist financing**.

IG/IN Investigation Procedures are also based on guidelines harmonised with the IFIs.¹⁶ Investigations by IG/IN are carried out in cooperation with the European Anti-Fraud Office (OLAF) – this includes the exchange of information, regular contacts between the two offices, meetings and, in appropriate cases, joint missions and investigations.

The EIB also works in cooperation with counterparts from the investigation, integrity and compliance departments in other IFIs (the World Bank, European Bank for Reconstruction and Development, African Development Bank, Asian Development Bank and Inter-American Development Bank), other international organisations and bi-lateral agencies (e.g. *Agence Française de Développement* and KfW Banking Group), as well as national audit, law enforcement and judicial agencies.

Most of IG/IN's investigative activity relates to external cases, in other words cases of alleged fraud, corruption, collusion or coercion involving projects where EIB has provided finance or other assistance.

Upon receipt of an allegation, IG/IN initiates a screening process, which identifies whether the allegation falls within its mandate and is credible and verifiable. At the conclusion of the screening, the Head of Division of IG/IN decides whether the allegation warrants further investigation. If not, the matter will be closed. It may also, if appropriate, be referred to another department within the EIB Group. Some examples of cases investigated are listed in Annex 1.

¹³ This could include tax fraud.

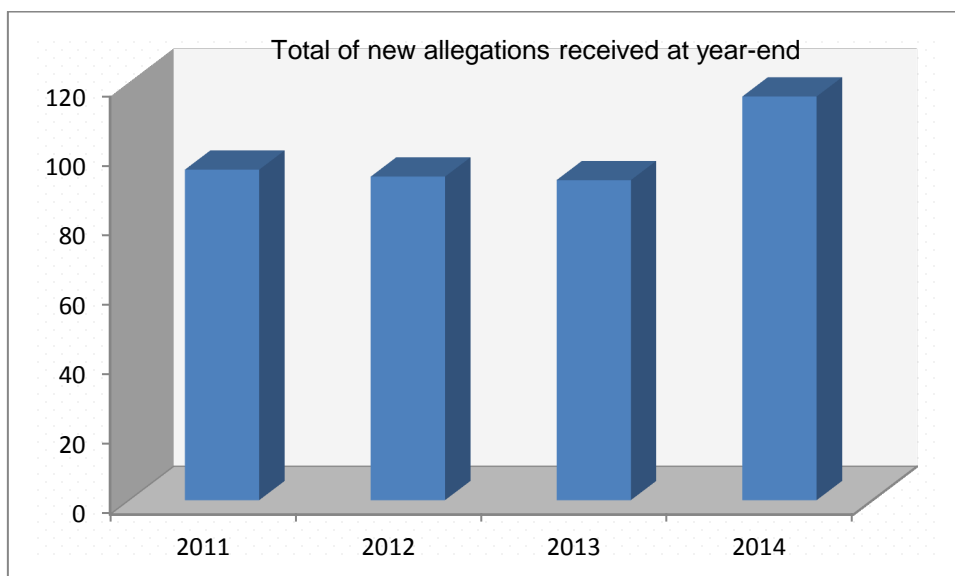
¹⁴ These first four definitions were harmonised in the Uniform Framework for Preventing and Combating Fraud and Corruption created by the IFI Anti-Corruption Task Force and signed on September 20, 2006 during the IBRD/IMF annual meeting in Singapore. As well as harmonisation of definitions, the Framework agreed: common principles and guidelines for investigations; the strengthening of the exchange of information; and to explore cross-recognition of debarment actions. This document can be found on EIB's website at: www.eib.org/about/documents/ifi-anti-corruption-task-force-uniform-framework.htm

¹⁵ The concept of obstruction of investigation was introduced in the EIB's Exclusion Procedures.

¹⁶ A copy of the Investigation Procedures can be found on the EIB website: <http://www.eib.org/about/publications/anti-fraud-procedures.htm>

3.1 Casework statistics

IG/IN received a total of 116 new allegations during 2014. This figure is significantly higher than previous years (roughly a 25% increase on previous years: 92 cases in 2013, 93 in 2012 and 95 in 2011).



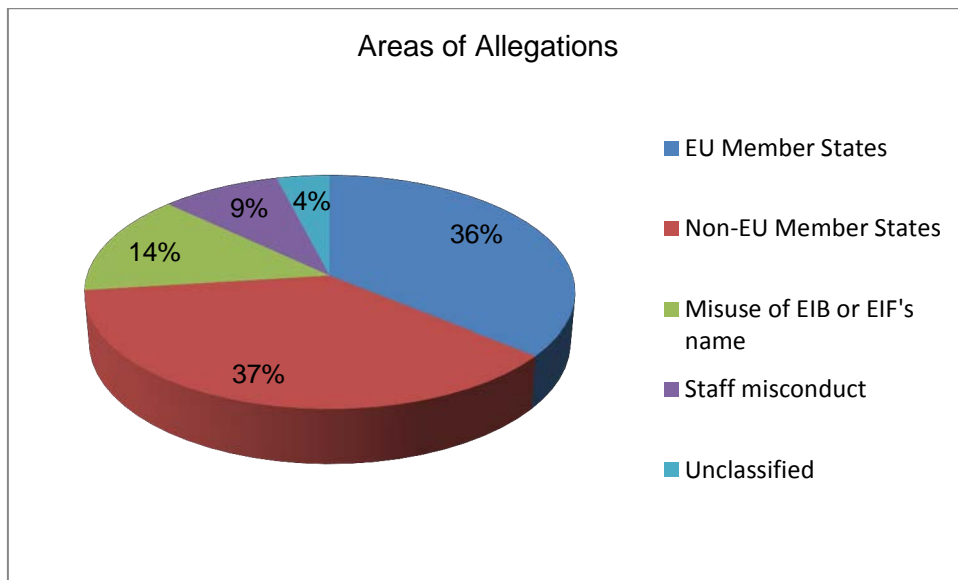
Nevertheless, the backlog of cases remaining open at year end dropped due to a significant effort by IG/IN staff to close cases (see further below). The table below summarises the case activity during 2014:

EIB + EIF	2012	2013	2014
New cases received during the year	93	92	116
Cases closed during the year	74	72	132
Cases under investigation/in monitoring at year end	106	126	110
Cases under investigation at 31/12/14	-	-	79
Cases in monitoring at 31/12/14	-	-	31

Of the 116 new reports recorded in 2014:

- There were 112 new reports in total for EIB and 4 for EIF;
- 42 (36%) emanate from or are primarily connected with the 28 EU member states (compared to 36% in 2013 and 49% in 2012);
- 43 (37%) emanate from or are primarily connected with non-EU member states (for example, the Balkans and Eastern Europe, the Middle East, African Caribbean and Pacific States (ACP), Asia and Central America (ALA) (compared to 40% in 2013 and 39% in 2012);
- 16 (14%) involved misuse of EIB or EIF's name (compared to 18% in 2013 and 2% in 2012);
- 10 (9%) related to staff misconduct cases (compared to 6% in 2013 and 10% in 2012); and
- 5 (4%) were otherwise classified.¹⁷

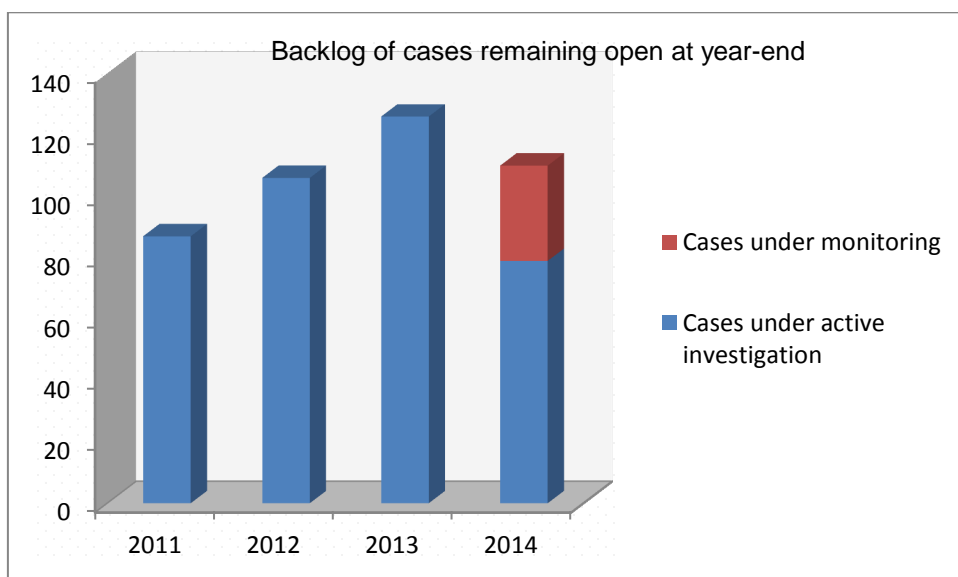
¹⁷ These include prima facie non-cases.



3.1.1 Casework backlog

Prior to 2014, the number of cases remaining 'open' at year end had been steadily rising with each year. This had previously been highlighted by the Audit Committee for attention by IG/IN, and so was a specific focus the Division in 2014. The number of cases closed in 2014 (132) almost doubled compared to 2013 (when 72 cases were closed). The reduction in the backlog reflects in part the arrival of additional staff resources and also a significant focus on closing cases under monitoring.

For the 2014 report, IG/IN is making a small change to the way it reports its statistics in relation to the backlog. In some instances, a case listed in previous annual reports as 'open' suggested it was still under active investigation, when in fact all internal investigative activity had been completed and the case had been referred elsewhere for action or was still being investigated by another body, such as a prosecuting authority, or was subject to follow-up action by another division of EIB, and was simply being monitored by IG/IN, pending resolution of the case. To present a more accurate picture of the active work of IG/IN, this year cases which have not yet been closed will be separated into 'under investigation' and 'in monitoring'. At the end of 2014, there were 79 cases under active investigation and 31 cases under monitoring. Overall, the combined total (110) has decreased from last year's total of 126, despite the large increase in the number of new cases opened as described above.



A different measure of IG/IN's activity is to look at the total number of cases worked-on. During 2014 this figure was 242, comprising:

- cases opened in or prior to 2014 which were closed in 2014.
- cases opened prior to 2014 which were still under active investigation at year-end;
- cases opened in 2014 which were still under active investigation at year-end; and
- cases in follow-up/monitoring.

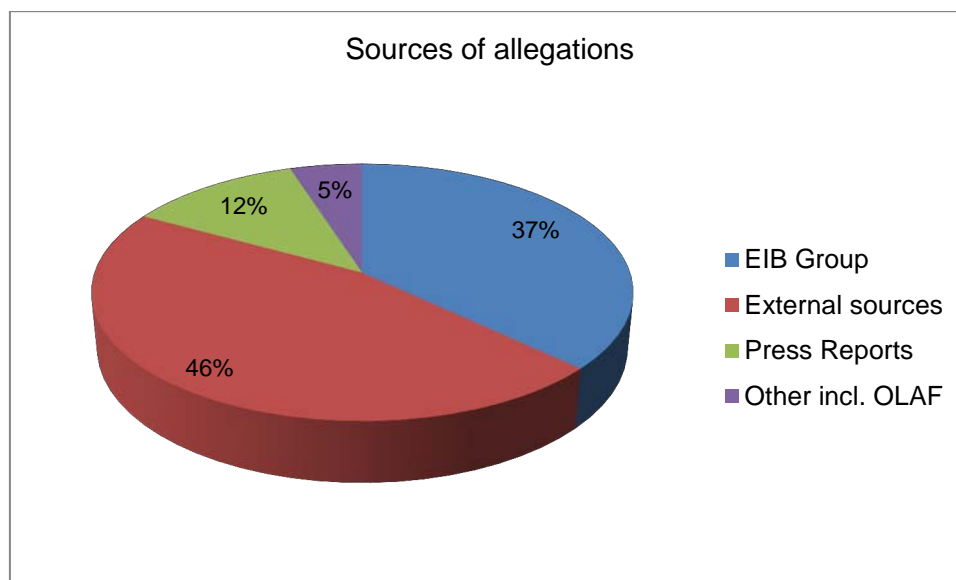
This figure for 2014 is higher than the 198 cases worked-on in 2013 (a rise of 22%).

3.1.2 Sources of allegations

As may be expected, IG/IN receives allegations from a wide variety of sources. For the purposes of this report, IG/IN classifies the sources into five different types: Internal (in other words EIB/EIF staff); External (for example, a supplier or project official); IG/IN's Proactive Media Reviews (PMRs) and Proactive Integrity Reviews (PIRs); other press reports; and OLAF.

Of the allegations reported to IG/IN in 2014:

- 43 (37%) were from an internal EIB Group source, compared to 36 (39%) for 2013 and 48 (52%) for 2012;
- 53 (46%) were from an external source, compared to 33 (36%) for 2013 and 28 (30%) for 2012;
- 14 (12%) were based on press reports compared to 8 (8.7%) in 2013 and 12 (13%) for 2012; and
- 6 (5%) were received from other sources including OLAF (3 cases compared to 9 (9.8%) for 2013 and 5 (5.4%) for 2012); a Proactive Integrity Review (1 case); and 2 unclassified cases.



3.1.3 Methods of reporting

IG/IN maintains a dedicated 'Investigations' e-mail address and a confidential fax to receive allegations, as well as a reporting link via the EIB website.¹⁸ This has not resulted in substantive reports. In 2014, IG/IN gave consideration to broadening its communication channels through use of technology, including the use of social media to make it easier for external parties to report appropriate issues to IG/IN in a timely and efficient manner. While no concrete decisions

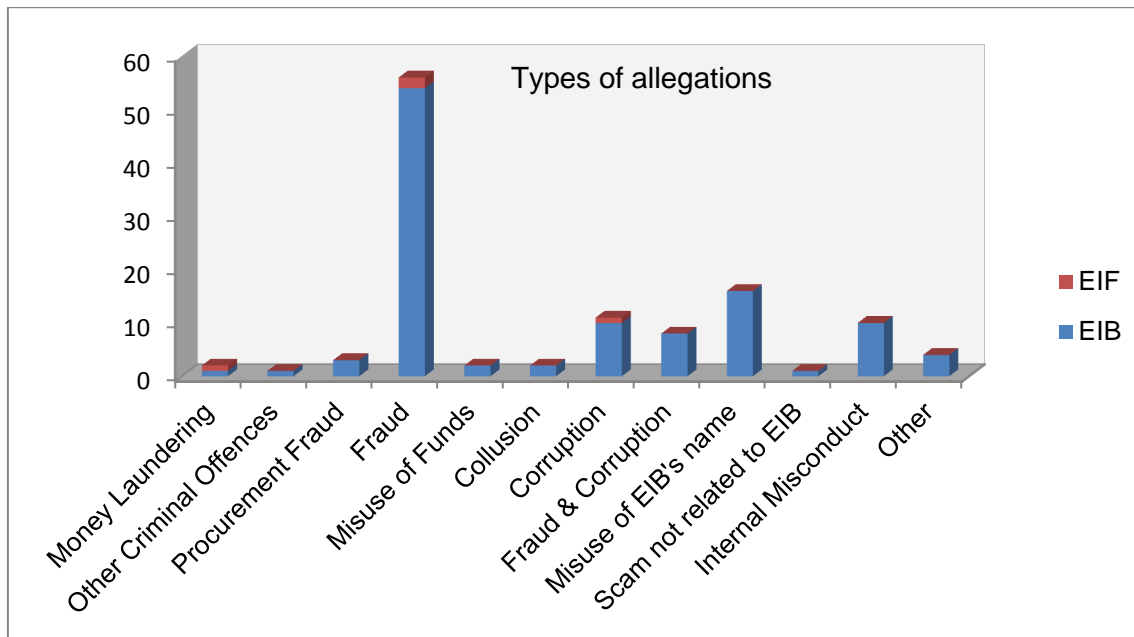
¹⁸ At the following link: <http://www.eib.org/about/cr/anti-fraud/reporting/index.htm>

have been taken, this will be kept under review as we move into 2015, and further thought will be given to increasing the opportunities for reporting.

3.1.4 Types of allegations

For 2014, the types of allegations received by IG/IN can be broken down as follows¹⁹:

Category	EIB	EIF	GROUP	(2013)
Money laundering	1	1	2	1
Other criminal offences	1	0	1	11
Procurement Fraud	3	0	3	n/a ²⁰
Fraud (miscellaneous)	54	2	56	23
Misuse of funds	2	0	2	18
Collusion	2	0	2	3
Corruption	10	1	11	15
Fraud and Corruption (combined)	8	0	8	n/a ²¹
Misuse of EIB's name	16	0	16	16
Scam not related to EIB	1	0	1	n/a
Staff misconduct	10	0	10	5
Other	4	0	4	n/a



¹⁹ This is a slightly different categorization than used previously in order to provide more specific detail.

²⁰ This was not specifically listed as a category in 2013.

²¹ This is a new category added for this year's report, where the case contains elements of both fraud and corruption.

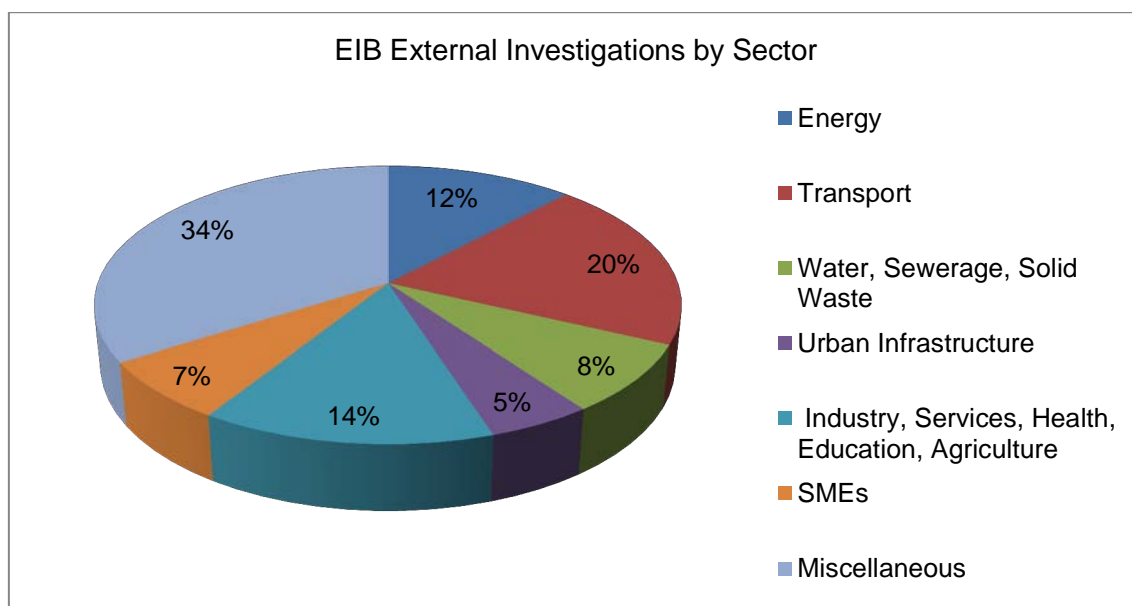
3.2 Trends

Last year saw a significant increase in reports categorised as fraud (over 50% of the total allegations received, compared to 25% in 2013). This should, however, be seen in the context that 'fraud' covers a wide range of miscellaneous activities including fraudulent misrepresentation, failure to declare pertinent information in bidding, and fraud in the implementation of projects, amongst other types.

The number of sophisticated, internet-based scams with organisations and individuals falsely claiming to be formally associated with EIB, usually with criminal intent, stayed constant. New examples include efforts to forge EIB bank guarantees and fake LinkedIn accounts for EIB employees (see Annex 1).

In such cases, IG/IN acts as quickly as possible to request domain providers to close down fake websites and email addresses, but this will likely be an ongoing issue for EIB, as it is for other international organisations. It is envisaged that the development of new communication channels for IG/IN in the future could provide more opportunities for the public to check the *bona fides* of entities and report wrongdoing.

The number of staff misconduct cases investigated by IG/IN rose from 5 in 2013 to 10 last year, which is closer to the longer-term average (8 in 2011, 9 in 2012).



3.3 Results of investigations

Proven cases: In 2014, out of the 132 cases closed, 41 were classed as 'proven' (31%), in other words the evidence showed that it was more probable than not that the allegation was true. This compares with 38% in 2013 and 24% in 2012.

The other cases that were closed in 2014 were either: (i) cases that were closed because EIB funds were not involved in the scope of the allegation; (ii) cases which were investigated, but insufficient evidence was found to substantiate the allegation or (iii) in some cases evidence was found to disprove the allegation. (This in itself may not mean the allegation was malicious, but simply that the complainant was mistaken.)

Proven Staff Cases: Of the 132 cases closed in 2014, there were 8 cases of proven staff misconduct which were referred to the Personnel Directorate for disciplinary follow-up. For data protection and privacy reasons, no further details can be provided, but these included

falsification of documents; potential unauthorised outside activities; and disclosure of confidential information (specific examples can be found in Annex 1).

Recovery: In addition, out of the 132 cases closed in 2014, there were 7 cases where it was appropriate for the Bank to recover the loan (or at least the portion tainted by fraud or corruption) or, in staff cases, the amount over-claimed for expenses.

Referrals: IG/IN makes referrals to national law enforcement and/or judicial authorities wherever suspected criminal conduct has occurred.²² In addition, referrals can be made by IG/IN to: (i) administrative authorities inside or outside the EU; and (ii) other parts of the Bank to pursue appropriate follow-up, for example disciplinary proceedings in a case of staff misconduct. Out of the 132 cases closed in 2014, 31 cases were the subject of such a referral.

As well as referrals of suspected criminal conduct to national prosecutors, judges and law enforcement/administrative agencies, EIB investigators were also in frequent contact with such agencies on cases already under investigation by them. Such contact is beneficial to both parties, in particular to establish whether the subject matter of their investigation impacts on an EIB-financed project and, if so, to facilitate an exchange of information. By way of example, during 2014, discussions took place with a number of national law enforcement and judicial agencies in the EU, Africa and Eastern Europe, including:

- UK Serious Fraud Office
- Senegalese State Inspectorate-General and National Anti-Fraud and Corruption Office (OFNAC - *l'Office National de Lutte Contre la Fraude et la Corruption*)
- US Department of Justice
- Slovenian Prosecutors and Commission for the Prevention of Corruption (*Komisija za preprečevanje korupcije*)
- Royal Canadian Mounted Police (RCMP)
- Mauritian Independent Commission Against Corruption
- Latvian Bureau for Prevention and Combating Corruption (KNAB)
- Romanian National Anticorruption Directorate (*Direcția Națională Anticorupție*)
- Egyptian Administrative Control Authority
- Serbian Anti-Corruption Council
- Italian prosecutors
- Spanish prosecutors
- Portuguese prosecutors
- Serbian prosecutors
- Polish prosecutors

While every effort is made by IG/IN to pursue cases through national prosecutors, the level of cooperation in these matters continues to vary greatly, which in some cases impacts IG/IN's ability to obtain evidence relevant to the factual determination of cases. Relatedly, the inconsistent level of cooperation on anti-corruption action among Member State agencies was recognised as a problem in last year's EU Anti-Corruption Report from the European Commission to the Council and the European Parliament.²³

In an effort to remedy this, in 2015 IG/IN will step up efforts to reach out proactively to improve its network of contacts in law enforcement, although in many cases legislative frameworks prevent formal disclosures of material, evidence or information to international organisations such as EIB. Nor can EIB use the Mutual Legal Assistance treaty to make official requests.

²² Such referrals are made in line with the EIB's Anti-Fraud Policy and in line with the practice at other international institutions. They may be undertaken in consultation with or with assistance from OLAF.

²³ Report from the Commission to the Council and the European Parliament: EU Anti-Corruption Report (3 February 2014).

3.4 Missions

IG/IN staff members conducted a total of 64 missions for investigative and other purposes during 2014, including visits to countries in the EU, Eastern Europe and Africa. This is a slight increase on 2013 (56 missions) and is closer to the average for previous years.

Of the 64 missions in 2013:

- 33 were staffed by more than one IG/IN staff member
- 12 involved contact and cooperation with OLAF
- 7 involved contact and cooperation with investigators from other IFIs; and
- 4 were undertaken in pursuit of the Proactive Integrity Review.

4. Proactive and preventive work

The proactive and preventive work undertaken by IG/IN in 2014 included two Proactive Integrity Reviews and one Proactive Media Review.

4.1 Proactive Integrity Reviews

With support from senior management and the EIB's Audit Committee for the development of the proactive and preventive aspects of its work, IG/IN has been conducting the Proactive Integrity Reviews (PIRs) since 2010. PIRs are designed to add to the Bank's current operational monitoring by selecting projects for an in-depth review by IG/IN on the basis of a risk assessment exercise. The risk assessment involves identifying projects of a complex nature or that are implemented in a difficult environment and which are therefore exposed to potentially higher risks of fraud and corruption. The process then looks for and identifies "red flags", possible indicators of fraud and/or corruption. This approach increases the preventive capability of the EIB Group and increases deterrence against fraud and corruption.

In 2014, PIRs were launched on projects located in Europe and in Asia. Since the concept was first introduced and implemented in 2010, IG/IN has undertaken PIRs on 25 different operations with 15 different promoters, comprising:

- 8 loans in EU member states
- 2 loans in Europe to non-EU Member States
- 13 loans in Africa/Caribbean/Pacific (ACP)
- 2 loans in Asia

In planning and undertaking a PIR, IG/IN endeavours to work closely with operational colleagues and national authorities, in particular with the national audit organisations, which may be invited to participate in the exercise. Based on the experience of the first years, IG/IN has now formalised internal guidance on how PIRs are carried out, as well as for the follow-up of recommendations coming out of a PIR.

Case Study: In early 2014, the Operations Division alerted IG/IN to a series of press articles regarding governance issues and mismanagement involving a large regional financial intermediary outside Europe which was a Borrower of EIB. This was a high priority issue, partly due to upcoming operations being affected, but also because the allegations centred on the senior management of the financial intermediary. IG/IN therefore decided to carry out a PIR at short notice. The PIR was carried out simultaneously with an investigation by the local Securities and Exchange Commission. The management of the financial intermediary did not cooperate fully with the PIR, failing to make documents available on time, including audits and internal investigation reports. Following a change in management, the Borrower proposed an action plan to improve corporate governance, the implementation of which IG/IN continues to monitor. As most of the action plan has now either been implemented or is in process, EIB was able to conditionally resume its operations with the financial intermediary.

4.2 Proactive Media Reviews

Proactive Media Reviews (PMR), which have been carried out by IG/IN since 2010, are a useful tool to identify adverse media reports featuring EIB-financed projects and/or sectors which are major recipients of EIB funds, but which have not otherwise been drawn to the attention of IG/IN. The PMR also provides input to the risk assessment process for the identification of EIB projects that should be subject to a PIR (see above).

One PMR was concluded at the end of 2014 with regard to operations in a Member State and the results are currently being analysed.

5. Non-Casework initiatives

A large number of non-casework initiatives were also undertaken by IG/IN in 2014 (108 in total). This is, over and above the 232 consultations by staff within the IG Policy Advisor's office concerning requests to change or delete the "standard wording" of the audit and information clauses in the EIB Model Finance Contract). IG/IN's non-casework initiatives including the following:

- Drafting of Implementing Guidelines for the Exclusion Procedures
- Drafting operating procedures for the Exclusion Committee
- Responding to general requests from NGOs and other outside entities
- Presenting the work of IG/IN to EIB's services and/or external parties
- Contributing to EIB's revised Transparency Policy
- Working with HR and OCCO to present the Integrity component for the new Core Competency training for EIB staff
- Joint discussions with the European Bank for Reconstruction and Development in relation to a possible settlement of a bribery case (reported in the 2013 annual report)
- An agreement with the European Bank for Reconstruction and Development on a harmonised covenant of integrity in co-financed projects
- Harmonisation of Integrity Risk Review guidelines with other MDBs
- A very useful and generally positive external review of IG/IN's policies and procedures
- Translation of the EIB Anti-Fraud Policy and Procedures into all EU languages for publication on the website
- Updating of the EIF Anti-Fraud Policy was largely completed
- Regular meetings with EIB Audit Committee and EIF Audit Board
- Briefing to MEP Urtasun, European Parliament Rapporteur for EIB
- Input to an external review of other IG functions (CM review panel)
- Discussions with German and French development agencies (KfW and AfD) on updating the integrity provisions of the Mutual Reliance Initiative

5.1 Implementation of the Exclusion Procedures

The Exclusion Procedures provide the detailed rules for the Management Committee to decide on the exclusion of entities and individuals found to have engaged in Prohibited Conduct from EIB-financed projects or other EIB-related operations. In 2014, IG/IN led discussions between the services to define the mechanism through which EIB exclusion decisions will be enforced across EIB projects and activities. This was a lengthy process, given the complex business lines of the Bank, the differences in procurement rules between the Member States and outside the EU, and the applicable legal framework within the EU relating to data protection and procurement directives.

However, progress was made in 2014, leading to the notification of the exclusion process to the European Data Protection Supervisor at the beginning of December 2014. Operating Procedures for the Exclusion Committee have been drafted and will be submitted for approval.

5.2 Fraud awareness training

The one-day fraud awareness training course designed by IG/IN for operational staff has been running since 2009. Attendance on the course enables staff to gain the necessary tools to identify “red flags” of fraud and corruption and to ensure that newcomers are ‘up-to-speed’ on the provisions of the EIB’s Anti-Fraud Policy, as well as reminding staff of their (and EIB counterparts’) responsibility to report allegations of fraud or corruption immediately to IG/IN.²⁴

In late 2010, the Management Committee decided to make the training mandatory for all operations staff. Including the 194 staff who attended the course in 2014, a total of 1265 current staff from across all directorates have attended since its inception. The level of attendance from the main target audience (i.e. those staff in professional roles within areas most likely to encounter fraud and corruption issues) is high (over 87%).

The follow-up e-learning module on fraud and corruption was developed and tested in the early part of the year, before being rolled out across the Bank. A total of 364 staff have already completed it. Considerable effort was made to ensure that the training was informative and relevant, with professionally created training films, realistic scenarios and a high level of interactivity. Feedback from staff has been very positive. Further modules on relevant topics including procurement fraud and due diligence are in preparation, as requested by operations staff, and are planned to be rolled out in 2015.

During the training session, staff are asked to indicate what they view as the greatest areas of fraud and corruption risk for EIB. The issues they raise are reported back to the Management Committee and Audit Committee. Some issues are raised consistently:

- Procurement in projects
- Global Loans and other forms of intermediary lending
- Lack of monitoring and resources for monitoring by the Bank
- “Political pressure” to execute questionable projects and ignore negative information
- The Bank’s move to short term staff contracts leading to either (i) reluctance to report for fear of jeopardizing contract renewal or (ii) short term opportunism²⁵

While the training has been very useful in encouraging staff to report concerns, efforts to remind staff of their obligations to report continue, with IG/IN working with Operations management in the latter part of the year to reinforce the message to their staff.

6. External cooperation

In addition to the cooperation with national authorities described above, IG/IN maintains close links with the investigative bodies of other international organisations.

In 2014, the cooperation with OLAF manifested itself in regular meetings to discuss developments on cases under investigation as well as negotiations on an administrative cooperation agreement.

As in previous years, IG/IN continued to work closely with counterparts in other International Financial Institutions, in line with the IFI Anti-Corruption Task Force’s Uniform Framework Agreement. The IFI Heads of Investigation met in January and December 2014. There was also a shorter meeting with heads of investigation/integrity counterparts from the Regional Development Banks prior to the Conference of International Investigators in Italy in October (see below). The discussions led to further work on harmonisation of common policies and procedures, including harmonised guidelines for Proactive Integrity Reviews.

In December 2013, IG/IN was successful in signing a Memorandum of Understanding (MoU) with the State Inspectorate General of Senegal. Under the leadership of the *Vérificateurs*

²⁴ Under the Board of Governors’ decision on measures to combat fraud (August 2004, PV/04/11), complainants may also inform the Secretary General or OLAF directly.

²⁵ The last issue is more recent since the Bank moved in 2013 to four-year contracts.

généraux - Ms Nafy Ngom Keita Ndour until July 2013, then Mr. François Collin - the State Inspectorate General of Senegal has provided excellent cooperation to IG/IN and in 2014 was instrumental in successfully concluding joint investigations undertaken by IG/IN, OLAF and the World Bank. On 11 November 2014, the Bank entered into an additional MoU with the National Anti-Fraud and Corruption Office in Senegal (*Office National de Lutte Contre la Fraude et la Corruption* - OFNAC) with the aim of further enhancing the exchange of information for investigative purposes. The MoU was signed on behalf of the Bank by Jan Willem van der Kaaij, Inspector General. Ms Nafy Ngom Keita Ndour, President of OFNAC, signed the MoU on the occasion of a visit of Johan Vlogaert, Head of IG/IN, to Dakar. After signature of the MoU, an extensive discussion took place between EIB staff and the members of OFNAC on topics of mutual interest such as prevention of fraud and corruption, including awareness campaigns for civil society and corruption impact assessments.



Mme Nafy Ngom Keita Ndour (left), President of the Office National de Lutte Contre la Fraude et la Corruption of Senegal and Johan Vlogaert (right), Head of IG/IN

Work also commenced towards a further MoU with the Audit Directorate of the European Commission's Directorate-General for Regional and Urban Policy (DG Regio).

7. Conferences and events

The Inspector General and staff from IG/IN are regularly invited to attend and speak at conferences and anti-corruption events on fraud/corruption and related integrity topics. Participation at such events fits well with IG/IN's commitment to raising awareness of integrity issues in as far as they impact EIB activities and operations.

During 2014, IG/IN staff participated in a number of events and meetings including:

- 15th Conference of International Investigators hosted by OLAF in Italy (including, as mentioned above, a meeting of the Investigation/Integrity units from the IFIs with counterparts from the Regional Development Banks). IG/IN led training sessions on open-source information tools and Proactive Integrity Reviews, as well as being part of the organising secretariat
- International Corruption Hunters Alliance conference, Washington DC



HRH Duke of Cambridge (left), Leonard McCarthy (Vice President of the World Bank, centre) and Jim Yong Kim (President of the World Bank, right) at the opening session of International Corruption Hunters Alliance conference, Washington DC, 8-10 December 2014

- Advanced open source intelligence course: techniques on how to get the most out of websites and social media, Bristol, UK
- Open source information gathering (OSINT), Cambridge
- Academy of European Law (ERA) Annual Forum on Corruption
- European Parliament (joint meeting with OLAF)
- European Data Protection Supervisor
- 2014 Annual Conference on Data Protection
- Training on new procurement directives organized by European Institute of Public Administration
- CFE Exam Course Review organized by the French chapter of AFCE
- Anti-corruption conference, Poland
- Serbian Anticorruption Council
- C5 Anti-corruption conference, Paris
- Conference on bid rigging, Berlin
- Conference on Collective Action, organised by the Basel Institute of Good Governance
- ERA conference access to documents
- C5 Anti-corruption conference for Southern Africa, Johannesburg
- In September 2014, IG/IN was pleased to be invited to participate in the 5th General Assembly of African Offices of the Inspector-General (AFIGO) in Yaoundé, Cameroon. IG/IN made a presentation about EIB's strategy for fighting fraud and corruption



5th General Assembly of African Offices of the Inspector-General (AFIGO) in Yaoundé, Cameroon

Staff members from IG/IN were also involved in a range of briefings to senior management and the Audit Committee on specific case-related issues, issues arising from the Exclusion Procedures and more generally on the role and function of IG/IN.



IG/IN's Deputy Head of Division (2nd from right) spoke on a panel about the benefits and difficulties of joint investigations at the 15th Conference of International Investigators, Riva del Garda, Italy in October 2014

8. Resources and staffing

During 2014, the combination of new cases, proactive work and policy initiatives continued to create heavy demands on IG/IN staff and present significant challenges to the small IG/IN team of 8 professional staff members. While a further investigator was recruited in 2014, the total number of investigation cases per investigator in IG/IN remains relatively high compared with other international organisations with a similar scope of work.

One staff member left IG/IN in mid-2014 and IG/IN was fortunate to be able to select an internal candidate to fill the gap. In addition, the recruitment of the next IG/IN Head of Division was undertaken (the current Head is retiring) and the selected candidate, Mr Bernard O'Donnell, started in March 2015.

As in previous years, the Division also utilised the services of consultants (experts in engineering, procurement, forensic accounting, etc.) to assist and advise IG/IN staff in appropriate cases.

9. Looking ahead

As mentioned in last year's report and above, one of the most significant limitations on IG/IN's ability to obtain concrete proof is a lack of access to bank account information, for which EIB is reliant on requests to national authorities. IG/IN has made progress during 2014 with a further MoU with authorities in Africa but it will be necessary to seek to build upon these efforts towards systematically and proactively creating a network of contacts with prosecutors and magistrates across Europe and elsewhere.

IG/IN is currently in negotiations with several large companies in relation to Prohibited Conduct and it is anticipated that some of these discussions will result in negotiated settlements to be finalised in 2015; for others, IG/IN expects to start its first exclusion proceedings in 2015 and, together with other parts of the Bank that will be involved, will need to review resources accordingly to ensure it has the appropriate expertise available.

Like the rest of EIB, the biggest challenge for IG/IN in the near future will be the increased workload stemming from the implementation of the Investment Plan for Europe.

Finally, to mark 10 years since the creation of the Inspectorate-General, IG will be hosting a special event in June 2015, which IG/IN will use to raise the profile of its work internally.

J.W. van der Kaaij
Inspector General

B. O'Donnell
Head of Division
Fraud Investigations Division

Annex 1

Examples of cases involving EIB-Financed activities




Allegation	Investigative Findings	Case Resolution
<p>For the last decade or more, and along with other international organisations and funding agencies, EIB has financed a number of loans to a company for the construction of power stations, with a total portfolio of €1 billion. An allegation was made that the bidding process was corrupted.</p>	<p>Following cooperation by IG/IN with law enforcement agencies over a number of years, the former General Manager of a joint venture between a US corporation and a state-owned electricity company was found to have accepted a total of \$5.2 million in bribes from three power companies, which they paid to secure a competitive and unfair advantage in the bidding process.</p>	<p>The former General Manager pleaded guilty in a national court and admitted that he attempted to conceal the kickback scheme by routing the payments through various off-shore bank accounts, under his control. EIB is continuing to consider what follow-up is appropriate in the light of the facts revealed in this case and what additional measures may be required to ensure future loans to the company are not the subject of corruption in the tendering process.</p>
<p>A complainant alleged that bribes were paid by a contractor to high-level officials in relation to a large infrastructure project outside Europe.</p>	<p>IG/IN undertook a joint investigation involving both the World Bank and OLAF. The investigation identified a 'commission' to an agent equivalent to 5% of the contract (over €6m) with little or no evidence of actual work done in return. This suggested that the commission in fact concealed the payment of bribes. IG/IN referred this case to the relevant authorities in three countries with a view to verifying the final recipients of the funds. The investigation also identified a conflict of interest in connection with a consultant for EIB's counterpart, who had been inappropriately advising the winning contractor during the procurement process</p>	<p>IG/IN recommended that the Promoter be required to stop using the services of the consultant and has started joint discussions with the World Bank and the contractor with a view to reaching a resolution.</p>
<p>IG/IN received an allegation regarding potential collusion between a staff member and a family member during the recruitment process of a post in EIB.</p>	<p>An applicant for a position at EIB was related to an existing EIB staff member. As part of the normal recruitment process, the applicant was provided with confidential information, prior to interview, by the staff member.</p>	<p>The matter was referred to Personnel for disciplinary action.</p>
<p>IG/IN received information from an anonymous source suggesting irregularities in the award of an EIB headquarters contract and alleging that a staff member involved in the relevant business area also had an ongoing financial relationship with the company. The complaint suggested that the company was being investigated by the national police and tax authorities for fiscal fraud and tax evasion.</p>	<p>The investigation found documents confirming the allegations and established that the staff member was not in compliance with the EIB Code of Conduct in several respects, there being a conflict of interest as well as infringements of the anti-fraud policy.</p>	<p>IG/IN referred the case to Personnel for appropriate disciplinary measures. In addition, IG/IN recommended improvements to monitoring of procedures relating to outside service providers.</p>

Allegation	Investigative Findings	Case Resolution
A European commercial bank contacted EIB to check the authenticity of a bank guarantee supposedly issued by EIB.	The guarantee, supposedly written on EIB-headed paper, was to cover a rental deposit for a residential apartment. The document was a fake.	IG/IN referred the matter to the national police.
An anonymous complainant alleged collusion amongst bidders on a procurement outside Europe, as well as bribery amongst officials of the Promoter.	IG/IN established that there were connections between some of the bidders, including shared ownership and shared office locations. The bidders denied collusion, however, and some explanations were provided to suggest they may indeed have bid independently. In addition there were other independent bidders to provide competition, and the final winning bid price did not provide clear evidence that the costs had been inflated.	IG/IN recommended measures to the Promoter to ensure greater scrutiny of bidders and proper competition in future bids.





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