



INSPECTORATE GENERAL
FRAUD INVESTIGATIONS

ANNUAL REPORT 2007

Message from the President

The European Investment Bank Group, which includes both the European Investment Bank and the European Investment Fund, has a zero tolerance policy on fraud and corruption. To achieve that requires appropriate anti-fraud measures in its business dealings and contracts. These measures have been strengthened through the public consultation process on the Bank's anti-fraud and corruption policies and procedures that took place during 2007.

The EIB cooperates closely in the fight against fraud and corruption with other International Financial Institutions (IFIs) and with OLAF, whose remit is the fight against fraud, corruption and other illegal activities detrimental to the Communities' financial interest. In particular, EIB co-operates with OLAF on each and every case that the Inspectorate General investigates, ensuring that a combination of banking and investigative resources is applied to the investigation.

When allegations of misconduct are received, it is essential to ensure that expeditious and thorough investigations occur and that appropriate action is taken by the Bank where fraud or corruption is discovered.

Following the publication of the Fraud Investigations' Activity Report for 2006, and in line with the increasing transparency of the Bank, this 2007 report will be made public.

The report demonstrates the positive steps that the Bank is taking to deal thoroughly, expediently and fairly with allegations of fraud and corruption and how it is doing so with the full support of OLAF. It also demonstrates how the Bank is strengthening its anti-fraud and corruption policies and procedures.

Finally, I would like to take this opportunity to thank the Bank's former Inspector General, Peter Maertens, who retired in 2007. Peter was instrumental in leading the Bank through the two rounds of public consultations on the Bank's Anti-Fraud Policy and for setting up the investigation function at EIB some years ago. I now look to Jan Willem van der Kaaij (who replaced Peter in November 2007) to build on the progress made to date.

Philippe Maystadt
EIB President

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1. Introduction

Fraud Investigations is a separate unit within the Inspectorate General (IG/IN) of the European Investment Bank (EIB) Group. It is responsible for receiving and investigating allegations from any source inside or outside the EIB Group of suspected fraud, corruption, coercion and collusion related to the EIB Group's activities and operations. This includes allegations of fraud involving bidders, contractors, sub-contractors, government officials, intermediaries, and fund managers and/or staff members of the EIB Group.

Investigations are carried out in close consultation and cooperation with the European Anti-Fraud Office (OLAF). This cooperation includes the exchange of all relevant information, regular contacts, meetings and, last but not least, joint missions.

Reports from IG/IN are made through the Inspector General to the President and responsible Vice President and, at the same time, to the Audit Committee, OLAF and the External Auditors. In the case of the European Investment Fund (EIF), the reports go to the Chief Executive, the Chairman of the Board of Directors, the Audit Board, the External Auditors and OLAF.

The procedure on how complaints can be made can be found at <http://www.eib.org/about/news/how-to-report-fraud-or-corruption.htm> .

2. Overview

This Annual Report covers the calendar year January 1 – December 31, 2007. It was a year in which the Bank made several major steps forward in strengthening its commitment to combat fraud and corruption. It was also a year in which there were a number of successes in its work in this area, as outlined below.

(a) Anti-Fraud Policy

On completion of the public consultation, IG/IN finalised the revised EIB Anti-Fraud Policy¹ and the Investigative Procedures² for approval by Management and the EIB Board of Directors in early 2008. The Policy will be reviewed and updated regularly and within a maximum period of 3 years.

In addition to the revised Anti-Fraud Policy, IG/IN also worked together with other Departments in the Bank and/or contributed to prepare proposals to:

- publish the standard terms used in its contracts relating to the fight against fraud and corruption;
- review the protection provided to whistleblowers with the aim of establishing an integrated and comprehensive approach to the issue;
- put in place a working debarment system. To achieve this, EIB will work with the European Commission to explore the possibility of applying to the EIB an enhanced system of exclusion, taking into account the new provisions in force within the EU institutional framework, and ensuring that EIB has access to the Commission's database of excluded entities;
- inform the relevant authorities of activities which EIB suspects constitutes money laundering or terrorist financing;
- review its approach to the Extractive Industries Transparency Initiative (EITI), leading to the EIB's support to this initiative, including the monitoring of the EITI principles and criteria in its lending program;
- undertake a review of the options available to the Bank to encourage fiscal transparency among public sector Borrowers outside the EU;
- promote the ratification/implementation of international conventions such as the United Nations Convention against Corruption among its clients; and
- consider further harmonisation/convergence of procurement processes (to the extent possible) with the other International Financial Institutions.

¹ The Anti-Fraud Policy can be accessed at: <http://www.eib.org/about/publications/anti-fraud-policy.htm>

² The Investigation Procedures can be accessed at: <http://www.eib.org/about/publications/anti-fraud-procedures.htm>

(b) Investigative Activities

The following table summarises the case activity during 2007 and compares it with the figures from the last four years:

	2004	2005	2006	2007
Cases pending from previous year	10	6	16	19
New cases	14	21	23	21
Total cases worked on	24	27	39	40
Investigations closed	18	11	20	16
Cases open at year end	6	16	19	24

The rise in the number of open cases is in particular due to the increase in cases pending from previous years. This reflects not only a standard pattern in the build-up phase of a relative new entity combined with an increasing workload, but also a rise in the number of complex cases, which require a longer lead time, both to investigate as well as in terms of administrative and legal follow up. In relative terms, the relation between the number of open cases and cases worked on remained stable.

(c) Coordination with IFIs

IG/IN has, pursuant to the IFIs' Anti-Corruption Uniform Framework Agreement, continued to work closely with the investigation and integrity offices of the other International Financial Institutions.

(d) Raising Awareness of Integrity Issues

IG/IN staff have continued to raise awareness of fraud and corruption by participating in a range of seminars and workshops, both within the Bank and outside. The Annual Report 2006 was published in March 2007³.

In addition, IG/IN also:

- initiated the preparation of proposals for a training initiative covering the period 2008 - 2011 to raise staff members' awareness of fraud and corruption issues; and
- initiated the preparation of proposals to undertake proactive investigations.

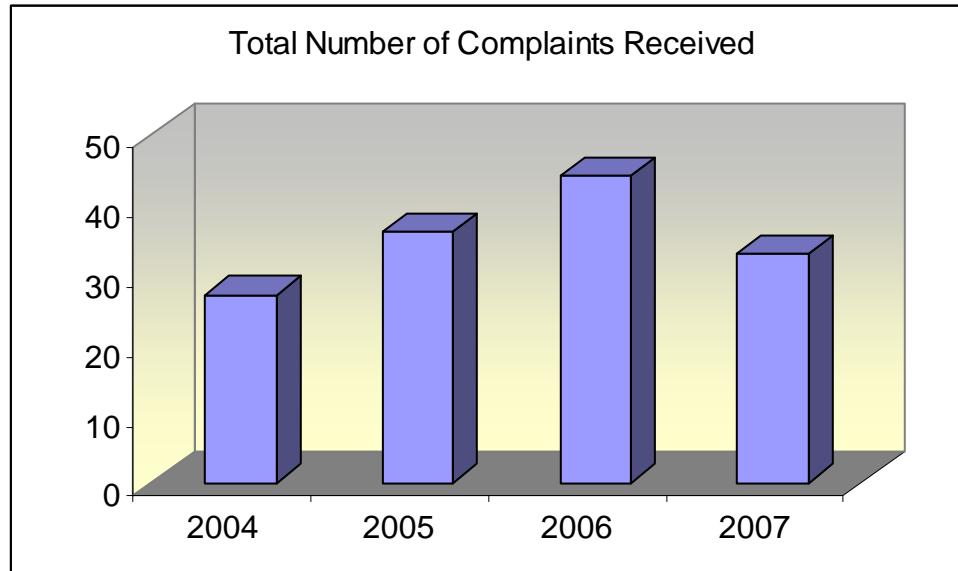
³ The 2006 Annual Report can be accessed at: <http://www.eib.org/about/publications/inspectorate-general---fraud-investigations-annual-report-2006.htm>

3. Investigations in 2007

- Receipt of Allegations

Upon receipt of a complaint, IG/IN initiates a screening process, which identifies whether a complaint falls within its mandate and is credible, verifiable and material. At the conclusion of the screening, the Head of IG/IN decides whether a complaint warrants further investigation. If not, the matter will either be closed, or, if appropriate, referred to another department within the EIB Group.

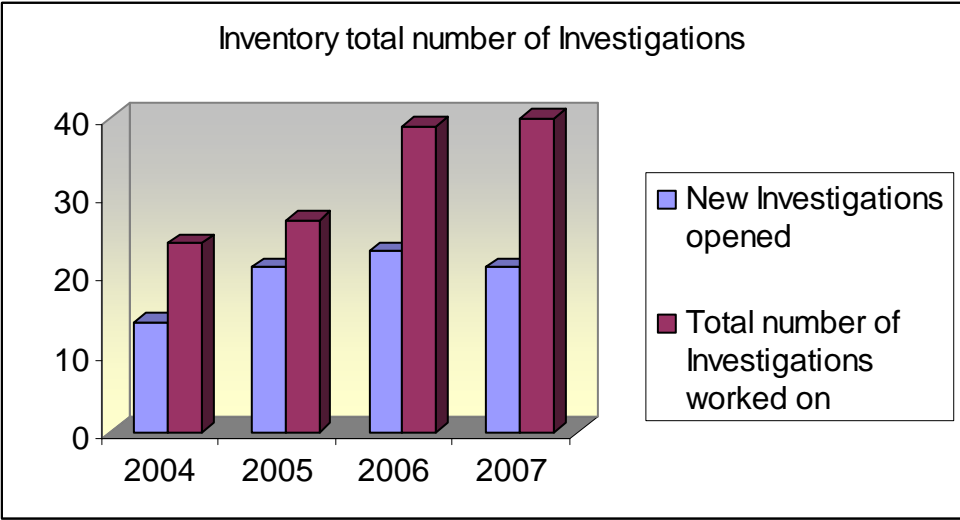
During 2007, the Unit accepted 33 new complaints compared to 44 complaints in 2006 and 36 in 2005. The decrease in the total number of complaints accepted is mainly a function of experience, resulting in better pre-screening. As a result, the number of non-cases also decreased. The non-cases are logged in a file which is open for review by OLAF. The allegations gave rise to 21 new investigations opened.



- Investigations

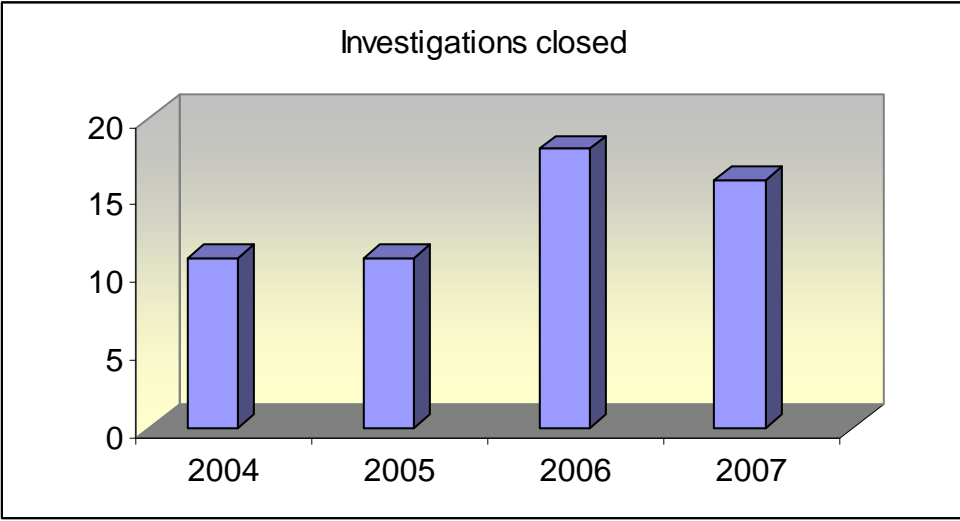
21 investigations were opened in 2007 compared to 23 in 2006 and 18 in 2005. Together with 19 ongoing investigations, the Unit worked on 40 cases in 2007 (compared to 36 cases in 2006), of which 4 concerned fraud allegations related to investment companies with which the EIF was dealing.

In 2007, the number of cases worked on outside the EU decreased from 17 to 11, whereas those inside the EU increased substantially from 20 to 28.

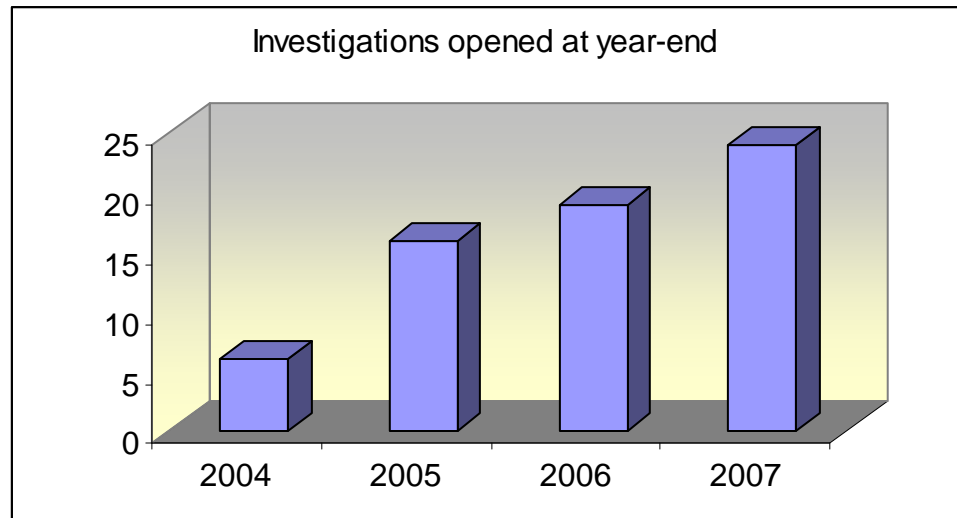


In 2007, 16 cases were closed. Cases were closed for the following reasons:

- No or insufficient proof was found: 7
- Results of investigation referred to judicial authorities: 4
- No wrong-doing in tender procedures found: 2
- Adequate reaction by promoter: 2
- Case appeared not to involve EIB funds: 1



Due to the increasing work load and complexity of investigations, the gradual increase of cases open at year-end continued, rising further from 19 in 2006 to 24 in 2007.



- Nature of allegations

In accordance with the Uniform Framework for Preventing and Combating Fraud and Corruption⁴, agreed between the Heads of the International Financial Institutions the following definitions are used:

- 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;
- 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; and
- A collusive practice: an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

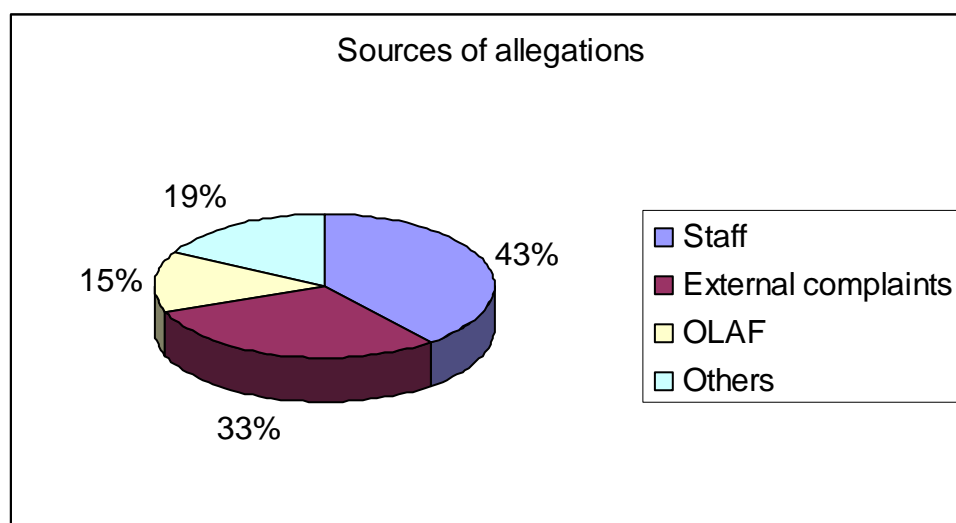
Based on these definitions, 52% of cases worked on in 2007 concerned allegations primarily of fraud, 33% primarily of corruption and there were two allegations of collusion between bidders (10%). One allegation (5%) concerned the possible utilisation of the Bank-financed assets for a different purpose than was agreed.

⁴ From February until September 2006, IG participated in the IFI Anti Corruption Task Force and hosted one of the meetings. The heads of the institutions represented agreed on the harmonisation of their definitions, agree on common principles and guidelines for investigations, the strengthening of the exchange of information and the exploration of cross-recognition of debarment actions. The resulting agreement was signed during the IBRD/IMF annual meeting in Singapore in September 20, 2006. The document is available on EIB's website at: www.eib.org/about/documents/ifi-anti-corruption-task-force-uniform-framework.htm

- Sources of allegations

In 2007, more allegations of possible fraud concerning EIB funding originated from EIB Group staff than was the case in the previous year (43% in 2007 against 34% in 2006). By far, next most important were complaints from third parties contacting the Bank. Other sources included OLAF, prosecutors and the press.

The large majority of cases reported by staff members concern EIB lending outside the EU. While IG/IN maintains a dedicated 'Investigations' e-mailbox and a confidential fax to receive allegations from outside the Bank, these resulted almost exclusively in non-cases in 2007.



- Follow-up

As a follow-up to its investigative findings and other activities, IG/IN may include recommendations to the operational and project departments. These ensure that remedial measures are taken and policies and procedures are amended where appropriate. In addition, the Bank has decided to extend fraud-awareness training for EIB staff so that they are better able to recognise "red flags" of fraud and corruption. This process should, over time, feed into the project/lending cycle resulting in the incorporation of "lessons learnt" into better designed and implemented projects.

The number of ongoing prosecutions is increasing gradually, reaching 16 in 2007. These are divided as follows:

- cases in court: 6
- cases in pre-court stage: 10 (of which 6 by prosecutors)

In one case, the Bank is arranging a settlement with the government, including full repayment of arrears.

4. EIB's Anti-Fraud Policy

At the end of 2006, IG/IN prepared two documents, the first containing the EIB's Anti-Fraud Policy. The second was the first codification of its investigative process, based on the Investigative Guidelines agreed in the IFI Uniform Framework. These documents were published on EIB's website for public consultation on February 12, 2007. Interested organisations and individuals were invited to comment on these two documents. This led to constructive discussions with stakeholders on their proposals and comments.

The public consultation comprised two rounds, with an ad interim draft new policy, being published in July 2007. After completion of the consultation process, the further revised policy and procedures were presented to the EIB's Management Committee in early 2008 for review and approval - the Policy was approved by the Board of Directors in April 2008.⁵

The EIF was not directly involved in the consultation, but has agreed to adapt its anti-fraud measures on the basis of the revised policy. The Investigation Procedures will be applied, mutatis mutandis, to the EIF.

5. Recruitment

An additional member of staff joined IG/IN in February 2007 and took up the post of Senior Investigator. Apart from investigations, he will address the policy work associated with the findings of investigations, as well as the follow-up work related to the Anti-Fraud Policy consultations. This addition has taken the number of staff working in IG/IN up to 3.

The Unit also utilises the services of consultants (experts in engineering, procurement, etc.) to assist and advise the Unit in appropriate cases.

6. Contacts with OLAF

There is a continuous and valuable cooperation and exchange of information between IG/IN and OLAF. This ensures that the EIB Group benefits from the full expertise and independence of OLAF as the organisation responsible for investigating fraud and corruption affecting the European community. At the same time, the involvement of IG/IN provides each investigation with banking and investment expertise and know-how.

In 2007, the cooperation with OLAF included regular monthly meetings, 3 joint missions and several visits by OLAF to the EIB Group offices to examine specific banking files and documents.

⁵ Further details of the consultation process can be found in the Consultation Report at: http://www.eib.org/attachments/strategies/anti_fraud_consultation_report_20080408_en.pdf

7. Interagency coordination

In addition to the close cooperation with OLAF (noted above), IG/IN has continued to work closely with the investigation offices of the International Financial Institutions (IFIs). Joint meetings with the IFIs are held at least semi-annually and, arising out of the cooperation, a number of joint initiatives occurred during 2007. These include the exchange of information pursuant to the IFIs' Anti-Corruption Uniform Framework Agreement and discussion of proposals to harmonise the IFI treatment of the disclosure of agents' fees and prior sanctions by tenders.

8. Other international contacts

IG/IN is committed to raising awareness of fraud, corruption and integrity issues relating to EIB operations. As a result, IG/IN staff participated as speakers/contributors to the following events during 2007:

- the 8th Conference of International Investigators;
- the OLAF/AFCOS Roundtable Meeting; and,
- the Joint OLAF/Eurojust Seminar.

IG/IN staff also attended:

- the Annual Conference of the Association of Certified Fraud Examiners;
- the European Anti-Fraud Conference;
- Transparency International's meeting to launch the Corruption Barometer.

Furthermore, one IG/IN team member serves as a member of the Conference Secretariat of the Conference of International Investigators, providing planning assistance and advice for the future host, which in 2008, will be the Food and Agriculture Organisation.

IG/IN staff were also involved in a range of briefings to senior management and the Audit Committee on specific case-related issues, the Anti-Fraud Policy review or more generally on the role/function of IG/IN. IG/IN also briefed the Permanent Representatives of Sweden and Denmark to the EU (December 2007).

J.W. van der Kaaij
Inspector General

S.W. de Vries
Head, Fraud Investigations

Annex 1

Complaints received, worked on and closed 2004 - 2007

	2004	2005	2006	2007
Total number of complaints received	27	36	44	38
Cases reviewed but not opened	13 ¹	15 ¹	21	17
New investigations opened	14	21	23	21
Ongoing investigations from previous year and before	10	8	16	19
Total number of investigations worked on	24	27	39*	40
Concerning: Inside EU	16	17	20	28
Outside EU	8	8	17	11
Internal	0	2	2	1
Investigations closed	18	11	20	16
Investigations open at year end	6	16	19	24
Field missions	4	6	7	7
(of which with OLAF)	2	2	5	3
Cases leading to prosecution - reimbursement	2	2	3	1
Meetings with OLAF	6	8	8	10

¹ Estimated: systematic registration started in 2005

Examples of cases involving EIB-financed activities closed in 2007

Allegation	Investigative Findings	Case Resolution
<p>Misrepresentation</p> <p>Fraudulent use of EIB name: a company enquired whether the EIB has granted them a loan as announced to them by an intermediary.</p>	<p>Investigation confirmed the allegation of misrepresentation and IG/IN hired specialised firm to identify intermediary.</p>	<p>Once identified, the Legal Department contacted a local law firm to start legal proceedings against the intermediary.</p>
<p>Fraud</p> <p>Complainant alleges that consulting firm uses same consultants during the same time for different projects financed by the EIB and EuropeAid, resulting in double payments.</p>	<p>IG/IN and OLAF investigated the time sheets of the consultants for both projects involved. The findings indicated a mistake in the consultant's accounts, but no double billing.</p>	<p>The allegations were thus not supported by the findings and the complainant was informed accordingly.</p>
<p>Fraud</p> <p>Operational Department informs IG/IN of the deteriorating financial situation of a borrower, a publicly owned company, causing violation of essential clauses of the Finance Contract. There is a possible link with fraud in a number of contracts signed by this company.</p>	<p>An external auditor was requested to perform an audit on the moneys disbursed by the EIB. The findings indicated no misuse of EIB funds, but there was a clear reputational risk for the EIB to continue to be associated with the borrower.</p>	<p>Operational Department concluded a 'Protocole d'Accord' with the - newly elected – government (guarantor of the loan), containing an agreement on full repayment of the loan, including arrears.</p>
<p>Collusion</p> <p>Employee of public company was suspected of collusion with the winner of a tender of computer equipment.</p>	<p>IG/IN met with the borrower, the prosecutor, the police and staff concerned. Police and prosecutor were in charge and kept IN/IG informed.</p>	<p>Two persons (employee and supplier) are prosecuted and the contract has been re-tendered.</p>