



INSPECTORATE GENERAL  
FRAUD INVESTIGATIONS

ANNUAL REPORT 2008

## 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.

In 2008, this policy was further strengthened through the approval of the Bank's reinforced anti-fraud and -corruption policies and procedures by the Board of Directors in April 2008. These improvements are now fully reflected in the Bank's business dealings and contracts. In addition, the Management Committee approved the introduction of EIB staff training in the recognition of red flags for fraud and corruption and authorised the Inspectorate General to initiate proactive investigations.

The EIB continues to cooperate closely in the fight against fraud and corruption 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. Regular meetings and other contacts also insure close coordination with the other International Financial Institutions.

The number of investigations on which Fraud Investigations has been working is increasing steadily. This is mainly a result of complex investigations, which remain open for several years. Together with the initiation of proactive investigations, this has created the need for additional manpower, the preparations for which were initiated towards the end of 2008.

The report thus reflects the important 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 and cooperation of OLAF. It also demonstrates how the Bank is continuing to strengthen its anti-fraud and corruption toolkit through new initiatives which are building on the structure already in place. As with the former, the Annual Report 2008 will also be made public through publication on the EIB's website.

Philippe Maystadt  
EIB President

## **TABLE OF CONTENTS**

|   |    |
|---|----|
| 1. Introduction   | 4  |
| 2. Overview   | 5  |
| 3. Investigations in 2008   | 7  |
| 4. EIB's new Anti-Fraud Policy                                      | 11 |
| 5. Staffing   | 11 |
| 6. Contacts with OLAF   | 11 |
| 7. Inter-Agency coordination  | 12 |
| 8. Other International contacts                                     | 12 |
| <br>  |    |
| Annex 1: Complaints received, worked on and closed                  | 14 |
| Annex 2: Examples of case involving EIB-financed and closed in 2008 | 15 |

## **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, when required, 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 Deputy 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/news/how-to-report-fraud-or-corruption.htm>

## 2. Overview

This Annual Report covers the calendar year January 1 – December 31, 2008. It was a year in which the Bank continued to make major steps to combat fraud and corruption and increase its preventive and deterrent capacity. 2008 was also a year in which there were a number of successes in its anti-fraud work, as outlined below.

### (a) *Anti-Fraud Policy*

Following the two rounds of public consultation undertaken in 2007, IG/IN finalised the revised EIB Anti-Fraud Policy<sup>1</sup> and the Investigative Procedures<sup>2</sup> for approval by Management. The Anti-Fraud Policy was finally adopted by the EIB Board of Directors in April 2008. The Policy will be reviewed and updated regularly and within a maximum period of 3 years.

As a follow-up to the adoption of the Anti-Fraud Policy, IG/IN also worked in 2008 with other Departments in the Bank and/or contributed to a range of other anti-fraud-related initiatives as follows:

- IG/IN provided detailed technical advice to the Compliance Office in its review of the protection provided to whistleblowers with the aim of establishing an integrated and comprehensive approach to the issue;
- IG/IN played an active role in discussions on how EIB can put in place a working debarment system. The EIB team has, among others, consulted with the European Commission to explore the possibility of applying an enhanced system of exclusion to the EIB, 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;
- The Bank signed a Memorandum of Understanding with the Financial Intelligence Unit in Luxembourg to provide a framework within which the relevant authorities can be informed of activities which EIB suspects to constitute money laundering or terrorist financing;
- promote the ratification/implementation of international conventions, such as the United Nations Convention against Corruption among its clients; and
- IG/IN continues to actively participate with counterparts in seeking further harmonisation/convergence of procurement processes (to the extent possible) with the other International Financial Institutions.

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

<sup>2</sup> 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 2008 and compares it with the figures from the last four years:

|                                  | 2004 | 2005 | 2006 | 2007 | 2008      |
|----------------------------------|------|------|------|------|-----------|
| Cases pending from previous year | 10   | 6    | 16   | 19   | <b>24</b> |
| New cases                        | 14   | 21   | 23   | 21   | <b>21</b> |
| Total cases worked on            | 24   | 27   | 39   | 40   | <b>45</b> |
| Investigations closed            | 18   | 11   | 20   | 16   | <b>18</b> |
| Cases open at year end           | 6    | 16   | 19   | 24   | <b>27</b> |

**(c) Coordination with IFIs**

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

**(d) Raising Awareness of Integrity Issues**

Staff from IG/IN has continued to raise awareness of fraud and corruption by participating in a range of seminars and workshops, both within and outside the Bank. The 2007 Annual Report was published in June 2008<sup>3</sup>.

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 pro-active investigations.

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<sup>3</sup> The 2007 Report can be found at the following link: <http://www.eib.org/about/publications/inspectorate-general---fraud-investigations-annual-report-2007.htm?lang=en>  
In addition, the 2006 Annual Report can be accessed at: <http://www.eib.org/about/publications/inspectorate-general---fraud-investigations-annual-report-2006.htm>

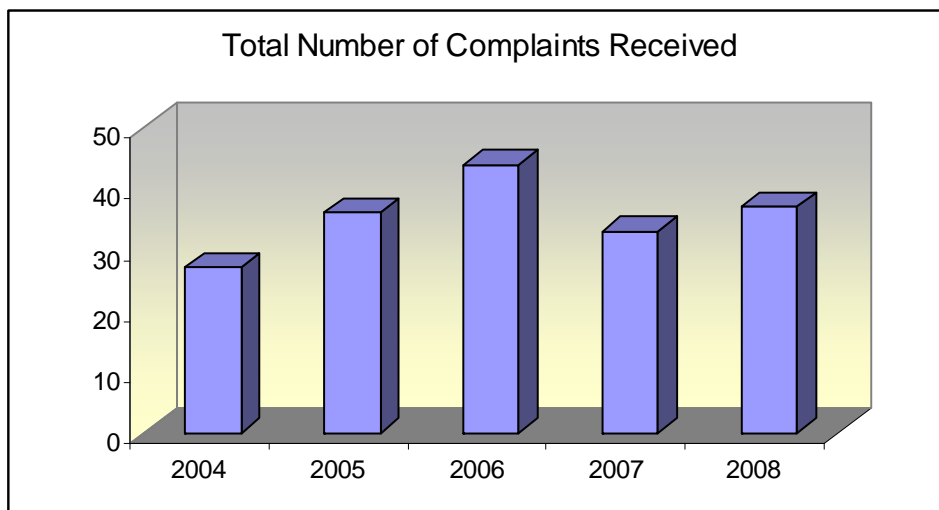
### 3. Investigations in 2008

- 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 2008, the Unit accepted – and opened investigations for - 21 new complaints, the same number as in 2007. The total number of complaints not accepted was again 17, showing that pre-screening is now stabilising at an acceptance level of about 55% of cases received.

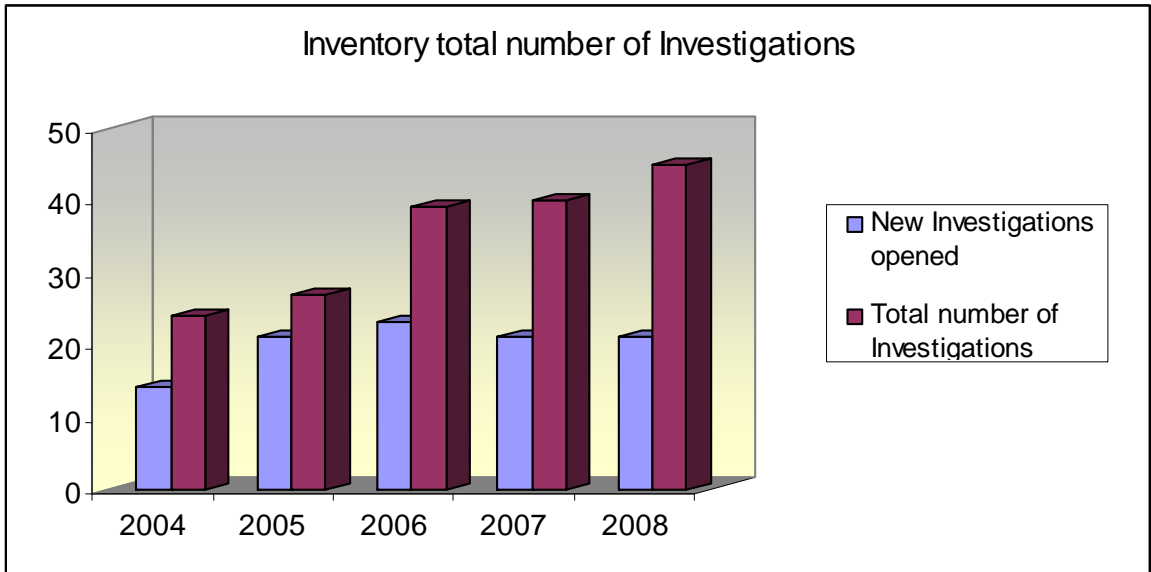
The non-cases are logged in a file which is open for review by OLAF.



- Investigations

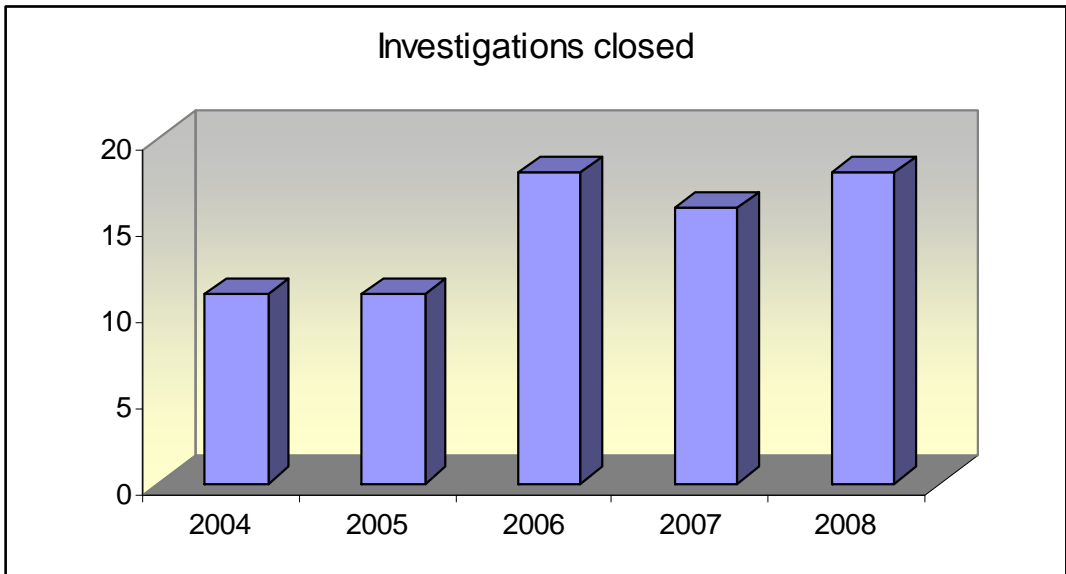
Together with the 24 on-going investigations, the Unit worked on 45 cases in 2008 (compared to 40 cases in 2007). Of these, 4 concerned fraud allegations related to the EIF.

In 2008, there was a sharp increase in the number of cases worked on outside the EU, which increased from 11 to 27, whereas those inside the EU decreased substantially from 28 to 14.



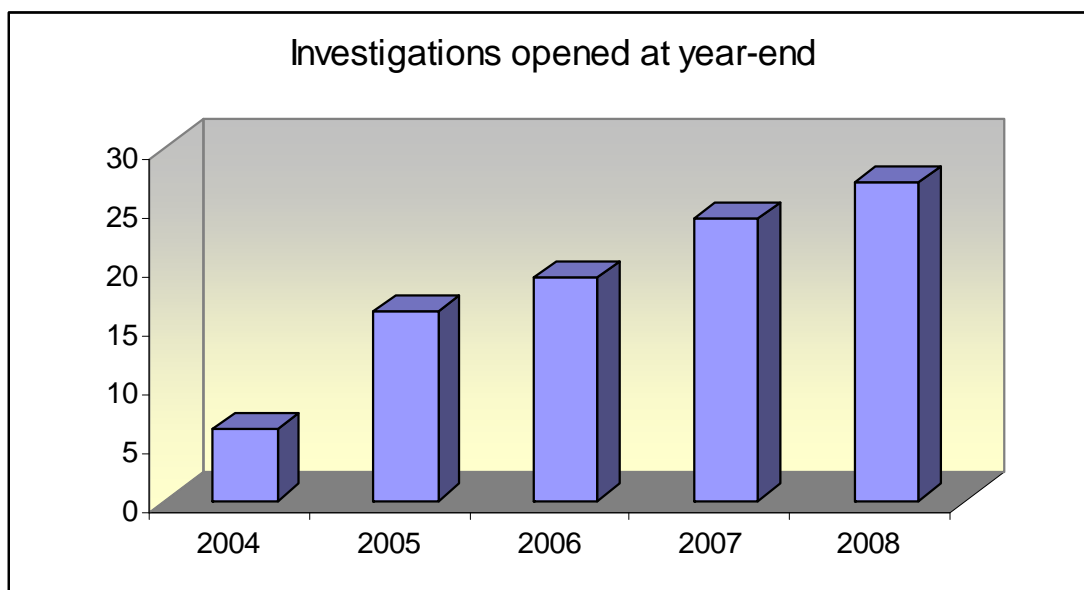
In 2008, 18 cases were closed. Cases were closed for the following reasons:

- no or insufficient proof was found: 3
- results of investigation referred to judicial authorities and/or resulting in acceleration of (part of) the loan: 5
- adequate reaction by promoter: 5
- case appeared not to involve EIB funds: 2
- other (e.g. case too old, non-case etc): 3





Due to the increasing workload and complexity of investigations, the gradual increase of cases open at year-end continued, rising further from 24 in 2007 to 27 in 2008.



- Nature of allegations

In accordance with the Uniform Framework for Preventing and Combating Fraud and Corruption<sup>4</sup>, 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.

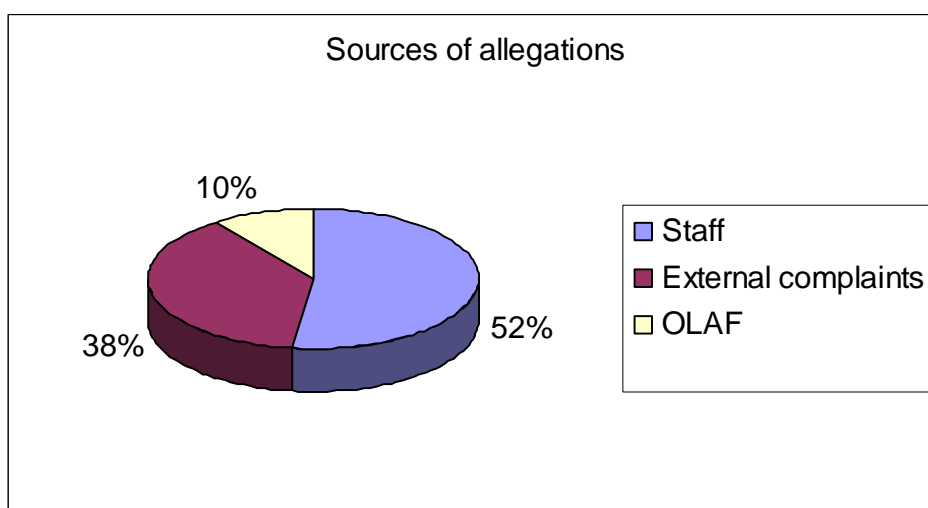
<sup>4</sup> From February to September 2006, IG participated in the IFI Anti Corruption Task Force and hosted one of the meetings. The heads of the institutions represented agreed on the harmonisation of their definitions; agree on common principles and guidelines for investigations, the strengthening 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](http://www.eib.org/about/documents/ifi-anti-corruption-task-force-uniform-framework.htm)

Based on these definitions, 62% of cases worked on in 2008 primarily concerned allegations of fraud, 24% primarily of corruption. There were no allegations of collusion between bidders in 2008. The remaining 19% (4 cases) represented internal issues. For three of these, which were not all of a serious nature, the allegations were not confirmed, whereas for the remaining one, which concerned a possibly misleading recruitment advertisement, a correction was made.

- Sources of allegations

In 2008, more allegations of possible fraud concerning EIB funding originated from EIB Group staff than was the case in the previous years (52% in 2008, against 43% in 2007 and 34% in 2006), which is encouraging. By far, next most important were complaints from third parties contacting the Bank, with the remaining originating from OLAF.

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, as in the previous year, almost exclusively in non-cases in 2008.



- 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 learned" into better designed and implemented projects.

#### **4. EIB's new Anti-Fraud Policy**

After completion of an extensive public consultation process, comprising two rounds during 2007, the revised anti-fraud policy and procedures were presented to the EIB's Management Committee in early 2008 for review and approval. The new policy and procedures were approved by the Board of Directors in April 2008. The new policy can be found at <http://www.eib.org/about/publications/anti-fraud-policy.htm>.

The EIF was not directly involved in the consultation exercise. Nevertheless, EIF staff has worked with IG/IN during 2008 to prepare its own anti-fraud policy, which will be based on the EIB policy. When finalised, the EIF policy will be published on the EIF website. The Investigation Procedures are applied, mutatis mutandis, to the EIF.

#### **5. Staffing**

Based on an increasing case-load and IG/IN's involvement in a number of time-consuming institutional policy issues, senior management provided budget authorisation for IG/IN to recruit two additional members of staff in 2009. The two staff will comprise one investigator and one forensic accountant/investigator (to focus on undertaking pro-active investigations). These additions to the Unit, which is run as a Division, will take the number of staff working in IG/IN up to 5.

IG/IN will also benefit from a staff exchange with OLAF during 2009 when an investigator from IG/IN will work with OLAF in Brussels and an OLAF investigator will work with IG/IN in Luxembourg.

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

Following an international selection process, IG/IN and the EIB Training Unit selected Lessons Learned Ltd to assist the Bank in developing a 1-day fraud awareness training course for staff. Initially, it will be focused on staff from operations and it is envisaged that the training course will be provided over 40 times in the next 3 years, following pilots conducted in March 2009. This will not only equip staff with the necessary tools to identify fraud and corruption and ensure that newcomers are 'up-to-speed' on EIB's anti-fraud mechanisms, but also to remind staff of their (and EIB counterparts') responsibility and obligation to report allegations of fraud or corruption to IG/IN immediately. IG/IN anticipates that this training will lead to a steady increase in reporting of allegations over the coming months.

#### **6. Contacts with OLAF**

There is a continuous and valuable co-operation 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's financial

interests. At the same time, the involvement of IG/IN provides each investigation with banking and investment expertise and know-how.

In 2008, the cooperation with OLAF included regular monthly meetings, 4 joint missions and several visits by OLAF to the EIB Group offices to examine specific banking files and documents.

## **7. Inter-Agency 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 2008. These include the exchange of information pursuant to the IFI's Anti-Corruption Task Force's Uniform Framework Agreement and discussion of proposals to harmonise the IFI treatment of the disclosure of (i) agents' fees; and (ii) prior sanctions; by bidders during the procurement process.

IG/IN has also participated in productive meetings and/or cooperation with EUROPOL, the secretariat of the Extractive Industries Transparency Initiative (EITI) and the UK's Serious Fraud Office as well as with prosecutors in a number of countries.

## **8. Other International Contacts**

IG/IN staff is regularly called-upon to speak at conferences and anti-corruption events. Such contributions fit within IG/IN's commitment to raising awareness of fraud, corruption and integrity issues in and relating to EIB operations. As a result, IG/IN staff have spoken at or contributed to the following events during 2008:

- the 9<sup>th</sup> Conference of International Investigators, in Rome;
- a meeting of the Investigation/Integrity units from the IFIs with counterparts from the Regional Development Banks, in Washington DC;
- a conference hosted by OLAF, EU Aid and the National Prosecution Authority of South Africa concerning "The protection and optimisation of public funds: co-operation between national and international authorities", in Cape Town;
- the OECD South East Europe Working Group on Corruption meeting, in Paris;
- the OECD Typology Exercise on Intermediaries in Foreign Bribery, in Paris;
- the Anti-Corruption Summit, in the Hague; and
- the 13th International Anti-Corruption Conference, in Athens.

IG/IN staff also attended:

- the Annual Conference of the Association of Certified Fraud Examiners;
- the Academy of European Law's Annual Forum on Combating Fraud and Corruption in the EU;
- a bespoke 1-day course for IG on linguistic lie detection; and
- the European Anti-Fraud Conference

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 - in 2009, UNWRA will host the conference in Jordan.

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.

In addition, on 9<sup>th</sup> December 2008, the President, Philippe Maystadt, issued a statement in support of the United Nations Office of Drugs and Crime's International Anti-Corruption Day.<sup>5</sup>

J.W. van der Kaaij  
Inspector General

S.W. de Vries  
Head, Fraud Investigations

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<sup>5</sup> The statement can be found at: <http://www.eib.org/about/news/eib-supports-united-nations-office-of-drugs-and-crimes-international-anti-corruption-day.htm>

**Complaints received, worked on and closed 2004 - 2008**

|   | 2004            | 2005            | 2006       | 2007      | 2008      |
|---|-----------------|-----------------|------------|-----------|-----------|
| <b>Total number of complaints received</b>            | <b>27</b>       | <b>36</b>       | <b>44</b>  | <b>38</b> | <b>38</b> |
| Cases reviewed but not opened                         | 13 <sup>1</sup> | 15 <sup>1</sup> | 21         | 17        | 17        |
| New investigations opened                             | 14              | 21              | 23         | 21        | 21        |
| On-going investigations from previous year and before | 10              | 6               | 16         | 19        | 24        |
| <b>Total number of investigations worked on</b>       | <b>24</b>       | <b>27</b>       | <b>39*</b> | <b>40</b> | <b>45</b> |
| Concerning: Inside EU                                 | 16              | 17              | 20         | 28        | 14        |
| Outside EU  | 8               | 8               | 17         | 11        | 27        |
| Internal  | 0               | 2               | 2          | 1         | 4         |
| Investigations closed                                 | 18              | 11              | 20         | 16        | 18        |
| <b>Investigations open at year end</b>                | <b>6</b>        | <b>16</b>       | <b>19</b>  | <b>24</b> | <b>27</b> |
| Field missions  | 4               | 6               | 7          | 7         | 11        |
| (of which with OLAF)                                  | (2)             | (2)             | (5)        | (3)       | (4)       |
| Cases referred or leading to loan acceleration        | 2               | 2               | 3          | 1         | 5         |
| Meetings with OLAF                                    | 6               | 8               | 8          | 10        | 9         |

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<sup>1</sup> Estimated: systematic registration started in 2005

**EXAMPLES OF CASES INVOLVING EIB-FINANCED ACTIVITIES CLOSED IN 2008**

| <b>Allegation</b>  | <b>Investigative Findings</b>   | <b>Case Resolution</b>   |
|--|---|--|
| <p><b>Misrepresentation</b></p> <p>Fraudulent use of EIB name: the Bank received several enquiries concerning the credibility of somebody posing as 'credit officer' of the EIB and offering his services as such.</p> | <p>While the perpetrator could not be identified, all complainants were duly informed.</p>  | <p>IG/IN contacted the network provider of the website. In response, the provider removed the website and banned the e-mail address.</p>   |
| <p><b>Fraud</b></p> <p>IG/IN was informed that the president and several employees of a borrowing financial institution had been found guilty of tax fraud.</p>  | <p>IG/IN decided to review the register of EIB-financed allocations and found discrepancies. An on-the-spot verification found non-reported cancellations of allocations and a number of fictitious equipment contracts.</p>  | <p>While no proof of intent or inappropriate benefit on the part of the financial institution was found, the EIB demanded early repayment of the total sum of the allocations concerned.</p> |
| <p><b>Fraud</b></p> <p>An EIB-participated fund alleged that its - EU-based - majority shareholder illegally siphoned off part of its funds and shortly afterwards went into liquidation.</p>                          | <p>A joint IG/IN-OLAF investigation concluded, among others, that</p> <ul style="list-style-type: none"><li>- the transfer of funds was illegal, and</li><li>- the fraud was committed in an EU country</li></ul>   | <p>All documents and findings were transmitted to the investigative judge in the EU country concerned. Proceedings still ongoing.</p>  |
| <p><b>Fraud</b></p> <p>IG/IN received a complaint, alleging that the president of an EIB-financed financial intermediary was sent on forced leave to facilitate an investigation into 'fraudulent activities'.</p>     | <p>An IG/IN mission to the country concerned interviewed the new president and members of the board. The mission found that the alleged fraud was of minor importance, but that an important part of the EIB loan had been used for other than the intended purpose, including office computers, etc.</p> | <p>As there was a clear breach of the finance Contract, the Bank demanded immediate repayment of the entire loan.</p>  |