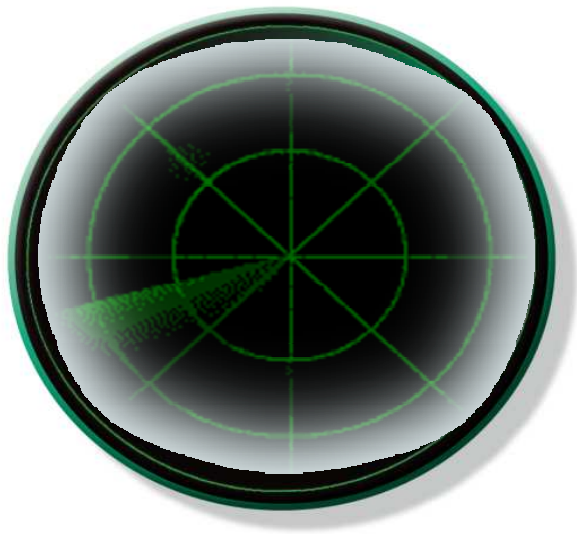




INSPECTORATE GENERAL
FRAUD INVESTIGATIONS DIVISION

ANNUAL REPORT 2010



Message from the President

The European Investment Bank Group includes both the European Investment Bank and the European Investment Fund. This report covers the work of the Fraud Investigations Division in respect of both organizations.

Both the EIB and EIF Anti-Fraud Policies contain a statement of “zero tolerance” towards fraud and corruption. In order to implement this important pledge, the team at the Inspectorate General’s Fraud Investigations Division works closely with all colleagues at the EIB Group.

We aim to minimise the risk of fraud, corruption, collusion and coercion issues in EIB’s projects and operations and to ensure that appropriate action is taken in a timely manner to address such issues when they appear. This is an important part of our overall approach – in severely undermining the work of EIB and EIF, fraud and corruption can have a corrosive effect on trust in public services and can hamper investment, economic growth and job creation.

This report describes the significant progress made by EIB’s Fraud Investigations Division during 2010 to investigate allegations of fraud and corruption in EIB operations and activities and explains the very positive start the Division has made in implementing pro-active tools that will increase the prevention of fraud and corruption issues. Apart from investigating all serious and credible allegations reported to IG/IN, the proactive approach seeks to deter such misconduct, whilst at the same time, raising awareness of the risks. With other services, these actions contribute significantly to safeguarding the integrity of our activities and operations at EIB Group.

As with other international financial institutions, it is critical to the success of EIB Group’s mission that all staff at EIB and the counterparts with whom EIB deals, whether they are borrowers, bidders, contractors, suppliers, recipients of investments funds, or government officials, continue to work to the highest standards of integrity and ethics.

Philippe Maystadt
EIB Group President

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EXECUTIVE SUMMARY

This report covers the calendar year January 1 – December 31, 2010. During this period there were a number of significant developments in IG/IN's capacity to investigate, prevent and deter fraud and corruption in EIB Group activities, which have been summarised below.

(a) Investigative Activities

IG/IN received a total of 82 new allegations during 2010. This is an upward trend from previous years (45 in 2009 and 38 in 2008) and seems to be a reflection of greater awareness of fraud and corruption issues within the institution and outside it.

In addition, there were 29 items in monitoring and IG/IN closed 38 issues (31 from 2010 and 7 from the previous year), to leave 45 items open at the year end.

IG/IN made 12 referrals of suspected criminal conduct to national agencies including to the authorities in the EU (Germany, Italy, Hungary, Luxembourg, Romania, the UK) and outside the EU (Mauritius, South Africa, Switzerland).

In addition, IG/IN continued to implement the Proactive Integrity Review initiative, undertaking two reviews, one at the request of Operations Colleagues and one based on a risk-assessment exercise, and starting a third. It is envisaged that three more PIRs will be undertaken in 2011.

(b) Fraud Policy and Related Initiatives

The workload of IG/IN also included various anti-fraud policy initiatives:

- IG/IN continued to lead the work to design an exclusion system. The EIB team has, among other things, (i) based on the consultants' report and on discussions with the Management Committee, finalised the procedure for exclusion of entities found to have engaged in fraud and corruption in EIB operations; and (ii) consulted with the European Commission to explore the possibility of applying an enhanced system of exclusion to the EIB and access to the Commission's database of excluded entities.
- IG/IN continues to actively participate with IFI counterparts in seeking further harmonisation of procurement processes. It is not possible at this stage for EIB to sign up to MDB Cross-Debarment (as agreed by the other five MDBs in Luxembourg in April 2010) as the EU legal environment in which the EIB has to operate is considerably different from the one applicable to other IFIs. However, once the new EIB Exclusion Procedure is introduced, it will be possible for the Bank to exclude entities which have been debarred by other IFIs, albeit not automatically.
- At the initiative of IG/IN, in close cooperation with the Legal Service, the Management Committee agreed that EIB can, in appropriate cases, register as a "partie civile" so as to gain access to court and investigation files;
- With assistance from the Legal Department, IG/IN drafted and the Inspector General signed IG/IN's first Memorandum of Understanding with a law enforcement agency, the Serious Fraud Office in London;
- IG/IN has worked with other EIB staff to agree amendments to EIB's revised Guide to Procurement, in particular extension of the Covenant of Integrity to sub-contractors: and

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- IG/IN is developing a new internal case management/tracking tool.

(c) *Coordination with IFIs and Others*

Following on from the IFI's Anti-Corruption Uniform Framework Agreement¹, IG/IN has continued to work closely with the investigation, integrity and compliance offices of other International Financial Institutions. In 2010, this collaboration included cases which were the subject of a joint investigation with colleagues from the World Bank and the European Bank for Reconstruction and Development (EBRD).

Moreover, for the first time, IG/IN led a joint investigation by four institutions in the region (EIB, EBRD, the Nordic Development Bank and Council of Europe Development Bank). The interim findings provided a common platform for use by operations colleagues.

IG/IN had many meetings/discussions with national judicial and/or law enforcement agencies (for example in France, Latvia, Portugal, the UK) and generally enjoyed good cooperation on cases of common interest during 2010.

(d) *Raising Awareness of Integrity Issues*

IG/IN have continued to run one-day fraud awareness sessions for EIB's operations staff, discussing the work undertaken by IG/IN, reminding staff of their duty to report suspicions, and (through case studies) providing examples to identify "red flag" warnings. The Management Committee agreed in 2010 to make this fraud awareness training mandatory for all staff above level F.

The 2009 Annual Report was published in 2010² and IG/IN also published a flyer and a Frequently Asked Questions (FAQ) document. Staff from IG/IN also continue to seek to raise awareness of fraud issues in conferences and seminars within and outside the Bank.

(e) *2011 and Beyond*

We foresee the rise in numbers of reports continuing, based on a number of factors including (i) wider appreciation by EIB staff and counterparts of their obligation to report; (ii) good cooperation with other agencies and IFIs; and (iii) the proactive nature of some of IG/IN's work uncovering issues that had not been reported but which nevertheless require further investigation.

¹ The document can be found at: <http://www.eib.org/about/documents/ifi-anti-corruption-task-force-uniform-framework.htm?lang=en>

² <http://www.eib.org/about/publications/inspectorate-general---fraud-investigations-annual-report-2009.htm?lang=en>

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1. Introduction

The Fraud Investigations Division is one of four Divisions (the others are Internal Audit, Evaluations and Complaints) making up the Inspectorate General (IG) of the European Investment Bank (EIB) Group.

(i) Investigative Activity: The Fraud Investigations Division (IG/IN) is, as the name implies, tasked with undertaking investigations into allegations of fraud and corruption in EIB and EIF operations and activities. IG/IN reports through the Inspector General directly to the President. The Bank and EIF have stated their policy of “Zero Tolerance” of fraud, corruption, collusion and coercion - the Bank’s Anti-Fraud Policy was adopted following approval in 2008 by EIB Board of Directors. The Policy can be found on the EIB’s website.³ EIF’s policy is adapted from the Bank’s policy and published on the EIF website.⁴

The Division receives and investigates allegations of suspected fraud, corruption, coercion and collusion from any source (inside or outside the EIB Group) - such reports could include for example:

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

Investigations by IG/IN are carried out in close consultation with the European Anti-Fraud Office (OLAF), the EU administrative investigative body, whose remit is the fight against fraud, corruption and other illegal activities detrimental to the European Union financial interests. The cooperation between OLAF and IG/IN includes the exchange of all relevant information, regular contacts between the two offices, meetings and, in appropriate cases, joint missions and investigations. The EIB also co-operates closely in the fight against fraud and corruption with counterparts from the investigation, integrity and compliance departments in other international financial institutions (IFIs), as well as national audit, law enforcement and judicial agencies.

IG/IN primarily focuses on external cases, that is, cases of alleged fraud, corruption collusion or coercion involving projects where EIB have provided finance or other assistance. In cases of internal fraud and corruption, that is, cases of fraud or corruption alleged to have been perpetrated by EIB staff members, IG/IN will also participate in the investigation in cooperation with OLAF.

Reports on IG/IN’s findings are made through the Inspector General to the President and responsible Vice President and, at the same time, to the Audit Committee and OLAF. 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 and OLAF. In both institutions, the External auditors are also kept informed of developments.

The procedures followed by IG/IN when investigating an allegation have been harmonised with the MDBs - a copy of the investigation procedures can be found on the EIB website.⁵

³ At the following link: <http://www.eib.org/about/publications/anti-fraud-policy.htm>.

⁴ At: http://www.eif.org/news_centre/publications/2009_anti_fraud_policy.htm?lang=en.

⁵ At: <http://www.eib.org/about/publications/anti-fraud-procedures.htm?lang=en>

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Information on how a suspicion of fraud or corruption can be reported to IG/IN can also be found on the EIB website.⁶

Furthermore, in addition to undertaking investigations, the Division is also responsible for:

(ii) Policy Initiatives: undertaking policy work associated with the cases and in ensuring the Bank's rules and procedures are reviewed and updated to ensure the "lessons are learned", and also to provide new tools, such as exclusion, which the Bank can use to deter future fraudulent or corrupt conduct; and

(iii) Proactive and Preventive Work: devising and implementing pro-active measures against fraud, such as IG/IN's Proactive Integrity Review and fraud awareness training for staff.

2. Core Work of the Fraud Investigations Division in 2010

(a) Investigations

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

Nature of allegations

In accordance with the Uniform Framework for Preventing and Combating Fraud and Corruption⁷, agreed between the Heads of the International Financial Institutions, harmonised definitions are used by all the IFIs including EIB. The harmonised definitions have been incorporated into EIB's Anti-Fraud Policy:

- 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.

⁶ at: <http://www.eib.org/news/how-to-report-fraud-or-corruption.htm>

⁷ IG participated in the IFI Anti Corruption Task Force during 2006. The resulting Uniform Framework agreement was signed on September 20, 2006 during the IBRD/IMF annual meeting in Singapore and agreed: the harmonisation of definitions; common principles and guidelines for investigations; the strengthening of the exchange of information; and to explore cross-recognition of debarment actions. It can be found on EIB's website at: www.eib.org/about/documents/ifi-anti-corruption-task-force-uniform-framework.htm

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EIB's Anti-Fraud Policy also includes provisions against anti-money laundering and terrorist financing.

Case Information:

IG/IN received a total of 82 new allegations during 2010. This is an upward trend from previous years (45 in 2009 and 38 in 2008 – see Annex 1) and seems to reflect a greater awareness of fraud and corruption issues within the Bank and outside it. Added to these new allegations were 27 cases in which the investigation was on-going from the previous year. This led to a total number of active cases of 109.

This was much increased from previous years, in part because for 2010, IG/IN started to count all new reports (rather than only counting newly opened 'full investigations', as it had done over the last five years) in order to more accurately reflect the number of issues reported to IG/IN. As a result, the figure for "new allegations received" includes all reports of allegations from EIB staff and external sources, as well as information identified by IG/IN (for example, from the press).

The following table summarises the case activity during 2010:

<i>As at 31 December 2010:</i>	EIB	EIF	Total
(i) Open cases pending from 2009	24	3	27
(ii) New allegations received	80	2	82
<i>Number of active files in 2010</i>	<i>104</i>	<i>5</i>	<i>109</i>
(iii) Files in monitoring	27	2	29
<i>Total number of files worked on ie: (i) + (ii) +(iii)</i>	<i>131</i>	<i>7</i>	<i>138</i>
(iv) Investigations closed (2010 reports + pre-2010 reports)	29 +7 = 36	2	38
(v) Open at year end	42	3	45
Number of referrals to national agencies	12	-	12

The number of active files (that is, new allegations received added to open cases from the previous year) also rose: 62 files in 2008, 78 files in 2009 and 109 files in 2010 – see also data included in the table at Annex 1.

Of the new allegations recorded in 2010:

- There were 80 new reports in total for EIB and 2 for EIF;
- 50 allegations (or 62.5%) emanate or are primarily connected with the 27 EU member states;
- 30 allegations (or 37.5%) emanate or are primarily connected with non-EU member states (for example, the Balkans and eastern Europe, Middle East, Africa, Asia and Central America)

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Sources of allegations:

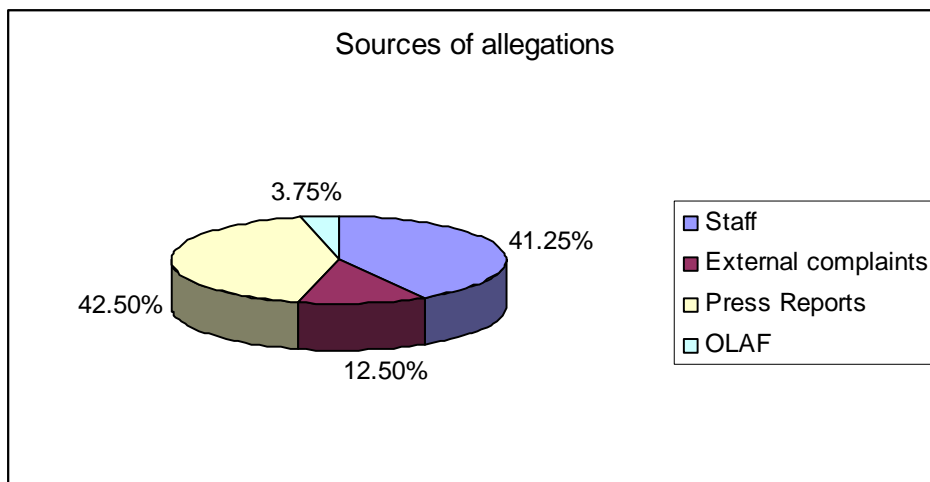
Previous years had seen something of a rising trend of allegations of fraud concerning EIB funding originating from EIB Group staff - 63% in 2009 or 10 of 16 cases, 52% in 2008, against 43% in 2007 and 34% in 2006, with other complaints coming from third parties who contacted the Bank and from OLAF. This trend changed slightly in 2010 although this may, in part, be because of the change in recording of new allegations.

Of the reports provided to IG/IN in 2010:

- 33 (or 41.25%) were from an internal EIB Group source;
- 10 (or 12.50%) were based on press reports;
- 34 (or 42.50%) were from an external source, including 2 anonymous reports; and
- 3 (or 3.75%) were received from OLAF.

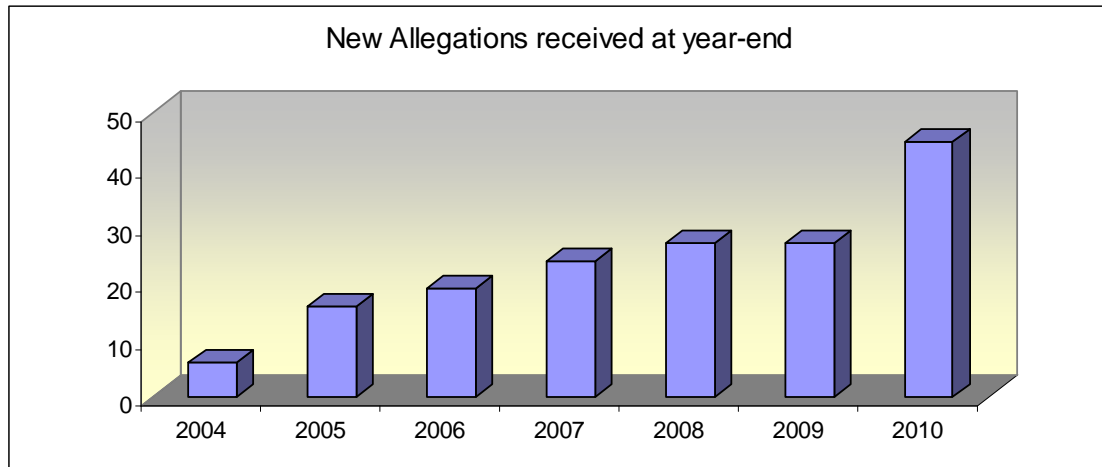
As has been the pattern in previous years, the majority of cases reported by staff members to IG/IN concern EIB- financed projects outside the EU.

As with other IFIs, IG/IN maintains a dedicated 'Investigations' e-mail address and a confidential fax to receive allegations from outside the Bank; however, it is rare that these means of communication result in cases requiring a full investigation. This pattern was repeated in 2010.



As has happened in previous years, partly due to the high workload (from both casework and policy issues) and partly due to the increasing complexity of investigations, the number of files open at year-end has continued to rise - 24 open files in 2007 rising to 27 in 2008 and 2009 and 45 in 2010.

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Follow-up:

As a crucial part of follow-up to the investigative findings, IG/IN will in appropriate cases include recommendations to the operational/project colleagues. These recommendations include suggestions of remedial measures to be taken and amendments to policies and procedures.

In addition, the Bank offers a 1-day fraud awareness training course for EIB staff so that they are better able to recognise “red flags” of fraud and corruption (see page 14). Over and above the greater awareness of fraud issues of operational staff, this process should, over time, also feed into the project/lending cycle resulting in the incorporation of “lessons learned” into better designed and implemented projects.

Referrals:

In 2010, IG/IN made referrals to national law enforcement and/or judicial authorities wherever it was appropriate. Consequently, IG/IN made 12 referrals where suspected criminal conduct had occurred for example, to the authorities in Germany, Italy, Hungary, Luxembourg, Mauritius, Romania, South Africa, Switzerland and the UK.

Such referrals are in line with “best practice” at other institutions and as envisaged by the EIB’s Anti-Fraud Policy. They are undertaken in consultation with and/or with assistance from colleagues at OLAF.

Contacts with National Authorities:

The above-mentioned referrals by IG/IN to national authorities occurred in addition to the numerous contacts IG/IN investigators had with national prosecutors, judges and law enforcement/administrative agencies on cases already under investigation. Such contact is normally 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 the exchange of information.

During 2010, such discussions took place, for example, with prosecution, law enforcement and judicial agencies in Botswana, Bulgaria, Croatia, Cyprus, France, Germany, Italy, Latvia, Lebanon, Liechtenstein, The Maldives, Mali, Mauritius, The Netherlands, Poland, Portugal, Romania, Switzerland, Tunisia, UK, USA and Zambia. As with referrals, contacts by IG/IN with law enforcement agencies is undertaken in consultation with colleagues at OLAF.

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Casework Briefings:

The President, the Management Committee and the Audit Committee are kept informed of developments by an IG/IN written Status Report on a regular basis in accordance with the Anti-Fraud Policy and IG/IN Procedures and, in addition, they are informed of findings and recommendations in IG/IN investigations.

Furthermore, the Head of IG/IN accompanies the Inspector General to briefings given to the Audit Committee on a bi-monthly basis. These briefings focus on cases with potential significant impact on the Bank and on IG/IN's efforts to prevent and deter fraud and corruption in the Bank's activities and operations.

(b) Policy Initiatives

IG/IN worked on a wide-range of anti-fraud policy initiatives (42 in total) during 2010, including:

Exclusion System:

One of the most important policy initiatives worked on by IG/IN in 2010 was to lead the work to design an exclusion system for EIB. Although it remains something of a 'work in progress' until implemented, it is envisaged that the Exclusion Process will provide a fair and transparent process enabling EIB senior management to decide whether to exclude (and if so for how long and/or with what conditions they could be readmitted) from future projects those entities found to have engaged in fraud or corruption in EIB-financed projects. In coordination with other staff, especially from the Legal Department, the IG/IN team has, among other things:

(i) finalised a written procedure for the exclusion of entities (firms and individuals) found to have engaged in fraud or corruption in EIB operations – this was based on the report commissioned from outside consultants and based on initial discussions with the Management Committee, and

(ii) continued to consult with the European Commission to explore the possibility of (a) applying an enhanced system of exclusion to the EIB and (b) gaining access to the Commission's database of excluded entities for EIB.

Memorandum of Understanding (MoU):

One way in which IG/IN can facilitate the flow of information is to negotiate an MoU with a law enforcement agency. During 2010, negotiations occurred over a period of months which culminate early in 2011 in the EIB's Inspector General signing a Memorandum of Understanding (MoU) with the UK's Serious Fraud Office. It is envisaged that the MoU will facilitate the exchange of information on fraud and corruption cases of mutual interest.

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The MOU with the SFO is the first MoU signed by IG and a law enforcement agency, and will become the basis for agreements to facilitate the exchange of information with other organisations in the future. IG/IN worked with colleagues from the Legal Department to finalise the document.

ABOVE: The Inspector General signs the MoU with the UK's Serious Fraud Office



Partie Civile:

During 2010, IG/IN and the Legal Department formulated a proposal (which the Management Committee approved) to facilitate decisions on whether the EIB can, in appropriate cases, register as a "partie civile". Included in the benefits to such a move would be to gain access to the court and investigation files in cases where EIB, as financier of the project under investigation, is designated by the Juge D'Instruction or Judicial Authorities as a potential victim. It remains to be seen how this will work out in practice but it is envisaged that this useful tool will be available for IG/IN from 2011 onwards.

Training:

The Division also benefited from the use of external training consultants to assist in the development of a fraud awareness training course for EIB staff. Following the successful pilot sessions conducted in March 2009, the one-day training course is expected to be provided over 40 times during the period 2009 – 2011.

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Attendance on this course will enable staff to be equipped with the necessary tools to identify “red flags” of fraud and corruption and to ensure that newcomers are ‘up-to-speed’ on EIB’s anti-fraud mechanisms. It also reminds staff of their (and EIB counterparts’) responsibility to report allegations of fraud or corruption immediately to IG/IN. The Management Committee agreed in 2010 to make this fraud awareness training mandatory for all staff above level F.



Case Management/Tracking System:

During 2010, substantial strides were taken towards a new case management system for IG/IN. It is hoped that this new system will, amongst other things, provide greater clarity to case tracking and management statistics.

Data Protection:

In line with other EU institutions (in particular OLAF), IG/IN has, in close cooperation with the Bank’s Data Protection Office (DPO) finalised discussions with the European Data Protection Supervisor. This followed a notification for prior checking of data processing procedures in the Division. On 14 October 2010, the EDPS issued an Opinion on the data processing undertaken within IG/IN and made a number of recommendations which are currently being implemented.

(c) Proactive and Preventive Work

The proactive and preventive work undertaken by IG/IN can be summarised as follows:

Number of Proactive initiatives undertaken	4
of which,	
- number of Proactive Integrity Reviews	3
- number of Proactive Media Reviews	1

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(i) Proactive Integrity Review: Over the last 18 months, IG/IN has developed a new instrument, the Proactive Integrity Review (PIR). One of the reasons for introducing PIRs was the need for IG/IN not merely to react (by opening investigations) to reported allegations but to increase its proactive and preventive role. PIRs are designed to add to the Bank's current operational monitoring by selecting projects on the basis of a risk assessment exercise for an in-depth review by IG/IN, in order to look for and identify so called "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.

The first round of PIRs were undertaken in 2010 with projects selected independently by IG/IN on the basis of an extensive risk assessment process, with the aim to identify projects of a complex nature or that are implemented in a difficult environment and are therefore exposed to potentially higher risks of fraud and corruption.

(ii) Proactive Media Review: In 2010, IG/IN also started to undertake a Proactive Media Review (PMR) of adverse media stories featuring EIB-financed projects or sectors which are key recipients of EIB funds in combination with the so-called "dirty words" (such as "fraud", "corruption", "embezzlement", "organised crime", etc.). This exercise was undertaken on a limited basis but based on its success (in uncovering issues not otherwise reported to IG/IN), it is envisaged that further such studies will be undertaken in the coming years.

Missions:

IG/IN conducted 51 investigative missions during 2010, including to countries in the EU, Eastern Europe, Africa, Middle East and Central America.

Of these missions:

- 18 were staffed by more than one IG/IN investigator
- 9 were undertaken jointly with colleagues from OLAF
- 3 were joint missions with World Bank investigators; and
- 7 were undertaken in pursuit of the Proactive Integrity Review.

3. Cooperation

(a) Contacts with OLAF

There is continuous 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, investment and project expertise.

In 2010, the cooperation with OLAF manifested itself in 11 meetings to discuss developments on cases under investigation and/or policy initiatives and a number of joint missions (including to the Maldives to undertake "on-the-spot control") and interviews. In addition, there were several visits by OLAF to the EIB Group offices to examine specific banking files and documents and a presentation to OLAF trainees on the work of EIB. IG/IN also benefitted from a day's training session provided by colleagues at the European Commission (DGINFSO) in March 2010.

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(b) Inter-Agency Coordination

As well as the close cooperation with OLAF noted above, IG/IN has continued to work closely with the investigation offices of the International Financial Institutions (IFIs).

IG/IN participate in joint meetings with the IFIs on a semi-annual basis and, arising out of the cooperation, a number of joint initiatives occurred during 2010. These include the exchange of information pursuant to the IFI's Anti-Corruption Task Force's Uniform Framework Agreement.

IG/IN continues to actively participate with IFI counterparts in seeking further harmonisation of procurement processes (to the extent possible). It is not possible at this stage for EIB to join the MDB Cross-Debarment agreement (as agreed by the other five MDBs in Luxembourg in April 2010) as the EU legal environment in which the EIB has to operate is considerably different from the one applicable in other IFIs.

IG/IN has also participated in productive meetings and/or useful cooperation with a number of national judicial authorities, investigation agencies and/or prosecutors in many countries on specific case-related issues of common interest.

(c) Other International Contacts

IG/IN staff members are regularly invited to speak at conferences and anti-corruption events on fraud, corruption and integrity topics and participation fits within IG/IN's commitment to raising awareness of integrity issues as they impact EIB activities and operations.

During 2010, IG/IN staff spoke at or contributed to the following events:

- 11th Conference of International Investigators hosted by UN OIOS in Nairobi, Kenya;
- a meeting of the Investigation/Integrity/Compliance units from the IFIs with counterparts from the Regional Development Banks (in parallel with the above event);
- a conference hosted by OLAF and EuropeAid and the Attorney General's Office of Panama concerning "The protection and optimisation of public funds: co-operation between national and international authorities in Central America", in Panama City with representation from administrative control bodies and prosecutors from 15 Latin American countries;
- a seminar entitled "Reducing the Risks of Fraud and Corruption in Procurement" at the Institute of Advanced Legal Studies (IALS) in London;
- the International Anti-Corruption Conference (IACC) hosted by Transparency International and the Thai Government in Bangkok in November;
- Presentation to OLAF trainees from African countries on the work of the Fraud investigation Division at EIB;
- The Corporate Fraud & Corruption Forum in Amsterdam;
- The opening of the International Anti-Corruption Academy in Vienna; and
- The launch of the "International Corruption Hunters Alliance" by the World Bank's Integrity Vice-Presidency in Washington, D.C. in December.

Furthermore, one IG/IN team member continues to serve as a member of the Secretariat of the Conference of International Investigators, providing planning assistance and advice for the future host.

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IG/IN staff were also involved in a range of briefings to senior management and the Audit Committee on specific case-related issues, issues arising from the Anti-Fraud Policy (such as exclusion) or more generally on the role and function of IG/IN.

4. Resources/Staffing

Based on the increasing demands on IG/IN (including higher case-load and IG/IN's involvement in a number of time-consuming policy issues, including the launching of the PIR instrument – see above), senior management's authorisation for IG/IN to recruit two additional members of staff was implemented in 2010 and two different recruitment exercises were run. As a result, two new members of staff were recruited to IG/IN - one investigator (formerly with the International Criminal Court in The Hague, working on War Crimes in Africa) and one new Head of the Fraud Investigations Division, coming from OLAF. These additions to the unit took the number of staff working in IG/IN up to 5.

IG/IN also continued to benefit from a staff exchange during 2010, with an investigator from IG/IN working with OLAF in Brussels and an OLAF investigator working with IG/IN in Luxembourg.



Above: The EIB's Fraud Investigations Division

As in previous years, the Division also utilised the services of consultants (experts in engineering, procurement, forensic accounting, etc.) to assist and advise it in appropriate cases. In order to facilitate this work, the Division (with assistance from other services in the Bank) undertook a new selection process for six new framework contracts.

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5. Future Progress

It is already foreseen that 2011 will provide new challenges to the IG/IN team. In addition to the regular flow of reported allegations, it is anticipated that new cases will result from the proactive PIRs and PMRs being undertaken by IG/IN. If this occurs, this would add to the trend of rising numbers of reported allegations over the last few years.

In addition to the casework, 2011 will also herald a great deal of work for IG/IN with other Bank services to implement the Exclusion Process, a fair and balanced system designed to exclude entities (firms and individuals) from contracts financed by EIB in the future.

It is envisaged that IG/IN will also be involved in some other major policy initiatives, including the up-dating of the Bank's procurement policy and undertaking a review of the Anti-Fraud Policy and procedures (for example to encompass changes arising from (i) the recommendations from the European Data Protection Supervisor and (ii) the Exclusion Procedures).

In addition to the cooperation with OLAF, it is anticipated that there will be further strengthening of the cooperation with other IFIs and a broadening of the good relations enjoyed with various national law enforcement authorities.

We would like to thank all those people (EIB staff and external parties) who reported suspicions of fraud, corruption, collusion or coercion affecting EIB-financed projects or operations to IG/IN in 2010. We would strongly encourage others to follow their example in the coming weeks and months. In this context, it is important for both EIB staff and interested parties outside the Bank to recall that proof of an allegation is not required before reporting an allegation – mere suspicion that fraud (or corruption, collusion or coercion) has occurred is sufficient to report an allegation to IG/IN. The investigators at IG/IN then review the allegation based on their experience and in accordance with well-established procedures that are harmonised with the IFIs and which take into account the rights of all parties concerned.

Finally, we would like to acknowledge the role of the President and the members of the Management Committee and the Audit Committee in supporting and encouraging the work of IG/IN.

J.W. van der Kaaij
Inspector General

J. Vlogaert
Head of Division
Fraud Investigations Division

**Fraud Investigation Division
Annual Report 2010**

Annex 1

Complaints received, worked on and closed 2004 - 2010

	2004	2005	2006	2007	2008	2009	2010
Total number of allegations received	27	36	44	38	38	45	82
On-going investigations from previous year and before	10	8	16	19	24	23	27
Allegations concerning issues:							
- Inside EU	16	17	20	28	14	9	53
- Outside EU	8	8	17	11	27	16	25
- Internal	0	2	2	1	4	2	2
Investigations closed	18	11	20	16	18	12	38

Other Statistics

Number of field missions	4	9	7	7	11	21	51
(of which with OLAF)	(2)	(2)	(5)	(3)	(4)	(10)	(9)
(of which are for PIRs)	-	-	-	-	-	-	(7)
Meetings with OLAF	6	8	8	10	9	6	11

EXAMPLES OF CASES INVOLVING EIB-FINANCED ACTIVITIES CLOSED

Allegation	Investigative Findings	Case Resolution
<p>Bond Fraud</p> <p>Fraudulent use of EIB bond details: the Bank received several enquiries concerning the credibility of entities and individuals seeking to use EIB bonds as collateral.</p>	<p>Various companies in different jurisdictions appeared to be colluding to try to defraud the victim. After inquiries on ownership confirmed suspicions, the complainant was duly informed.</p>	<p>IG/IN contacted the police to refer the issues identified.</p>
<p>Tax Fraud</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 reviewed 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>Investment Fraud</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 (i) the transfer of funds was illegal, and (ii) the fraud was committed in an EU country</p>	<p>All documents and findings were transmitted to the investigative judge in the EU country concerned. Proceedings still on-going.</p>
<p>Fraud</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>