

CORPORATE

Fraud Investigations

Activity Report 2018

Fraud Investigations

Activity Report 2018

European Investment Bank Group Fraud Investigations Activity Report 2018

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You can also contact our Infodesk, info@eib.org.

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FOREWORD BY THE INSPECTOR GENERAL

Under the Bank Group's Board-approved Anti-Fraud Policies, the Fraud Investigations Division (IG/IN) is required to report annually on its investigation activities. As Inspector General, it gives me great pleasure to provide you with the details of the work conducted by the Division in 2018, along with some of the lessons learned from various investigation cases and other activities undertaken as part of the Bank's fight against fraud, corruption and other forms of prohibited conduct.

Along with outlining the work of the Fraud Investigations Division through specific case examples, this report also provides me with an opportunity to emphasise the need for all of us to remain vigilant in the fight against prohibited conduct. According to the World Economic Forum, the annual global cost of corruption is around EUR 3.2 trillion¹ per year. The EIB is no different from other international and national institutions in terms of such risk. We are determined to mitigate these risks to the fullest extent possible. Our Inspectorate General is well placed to investigate and to gather the evidence needed for the Bank to take sound decisions.

2018 saw an increase in the number of cases referred to the Inspectorate General's Fraud Investigations Division for possible investigation. An expanded section of this report covering matters investigated by our Division in 2018 offers the reader an insight into the kind of cases our Division handles.

Let me highlight just a few examples of the work conducted by the Fraud Investigations Division in 2018, which you will find in more detail in the following pages. Our work included an agreement with Volkswagen arising from the so-called "Dieselgate" affair; support for an Anti-Corruption Bureau leading to the arrest and trial of persons allegedly involved in corrupting an EIB-financed project; fraud investigation in an EIB external office, resulting in the arrest of those responsible, and on-the-ground investigations in a number of countries; inspections of books and records, and provision of information to other areas of the Bank to help mitigate further risk. During the year, the team also provided significant forensic support to other areas of the Bank responsible for conduct issues not falling within IG/IN's mandate (e.g. Dignity at Work and Code of Conduct).



The work of the Division goes far beyond investigations: it includes policy work and awareness-raising. In 2018 alone, we trained approximately 500 EIB and 119 EIF staff members and carried out other outreach activities, including a conference to mark Global Anti-Corruption Day. A special initiative last year was the addition of an integrity subject in the internal photo competition to show staff the effects of prohibited conduct on our projects and our lives.

We work closely with national investigation and prosecution offices. To further enhance cooperation with national partners, memoranda of understanding were signed in 2018 with the French Anti-Corruption Agency, the Office of the Prosecutor General of Hungary, the Moldovan National Anti-Corruption Centre and the Ukrainian National Anti-Corruption Bureau.

I would like to thank staff across the EIB Group for their continued cooperation and confidence, and my staff for their hard work and perseverance, often under challenging conditions. I hope that you find the information in the following pages informative and interesting.

Jan Willem van der Kaaij
Inspector General

¹ <https://www.un.org/sg/en/content/sg/statement/2018-12-09/secretary-generals-message-international-anti-corruption-day-scroll>

ABOUT THE FRAUD INVESTIGATIONS TEAM

The Fraud Investigations Division (IG/IN) provides the EIB Group with the capacity to professionally and objectively investigate allegations of prohibited conduct involving EIB Group-financed activities (and/or members of governing bodies or staff) and to provide the Bank's departments with relevant facts and recommendations to form the basis for appropriate follow-up action.

IG/IN is the only office within the EIB Group mandated to conduct investigations into allegations of prohibited conduct as defined in the Bank's and the EIF's Anti-Fraud Policies, including fraud, corruption, collusion, coercion, obstruction, terrorist financing and money laundering.

While investigations make up the core of IG/IN's work, the Division is also responsible for:

- referring cases to the European Anti-Fraud Office (OLAF) in accordance with the Administrative Cooperation Arrangement signed between the Bank and OLAF, in which IG/IN is the sole point of contact with OLAF;
- referring evidence to national authorities to initiate criminal investigations;
- presenting evidence of prohibited conduct to initiate action under the Bank's Exclusion Policy;

- leading negotiated settlement discussions with entities that have engaged in prohibited conduct;
- conducting Proactive Integrity Reviews (PIRs) in areas of increased risk and sharing lessons learned from reviews and investigations in order to improve the effectiveness and efficiency of the EIB Group's operations and activities;
- providing professional investigative support to the EIB's Office of the Chief Compliance Officer, the Personnel Directorate and the President's Office, as and when required, for matters requiring investigation and forensic expertise;
- contributing to increased awareness among EIB Group staff members about prohibited conduct;
- advising EIB Group departments on integrity-related contractual requirements, policies and procedures;
- strengthening cooperation across borders with other entities in the joint fight against fraud, corruption and other forms of prohibited conduct.

KEY POLICIES AND DOCUMENTS

- The **IG/IN Charter** sets out the scope of work, authority and core principles of IG/IN.
 - The **EIB Group Investigation Procedures** set out the methodology and procedures for conducting investigations under IG/IN's mandate.
 - The **EIB Anti-Fraud Policy** and **EIF Anti-Fraud Policy** provide details of the EIB Group's policy on preventing and deterring prohibited conduct.
 - The **EIB Exclusion Policy** sets out the procedures for the exclusion of entities and individuals found to have engaged in prohibited conduct.
-

IG/IN STRUCTURE



The activities of IG/IN are divided into four areas:

- Policy
- Fraud Detection/Proactive Integrity Reviews
- Investigations
- Intake and Analysis

The Policy team works closely with the other units to ensure comprehensive implementation of the Anti-Fraud Policy, advises other EIB Group departments on prohibited conduct matters and coordinates fraud and corruption awareness activities – see section 8 of this report for more information.

The Fraud Detection/Proactive Integrity Review Unit identifies prohibited conduct and other vulnerabilities in Bank-financed projects based on risk, rather than on a specific allegation – more details in section 6 of this report.

The Intake and Analysis Unit and the Investigations Unit are tasked with the systematic assessment and, where appropriate, the professional investigation of prohibited conduct possibly linked to EIB Personnel or activities – you will find more details in section 5 of this report.



IG/IN 2018 RESULTS AT A GLANCE

62 missions

184 new allegations

120 cases closed

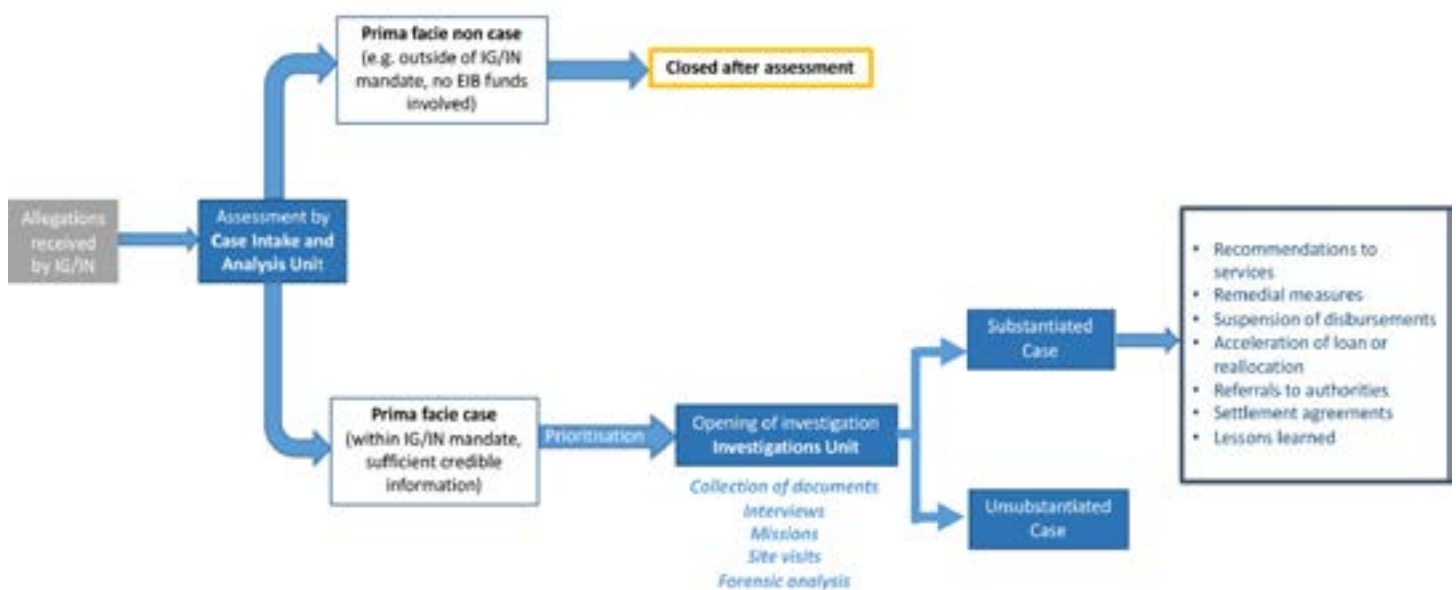
379 cases handled in total

68% of allegations
reported by EIB Group
staff members

INVESTIGATING PROHIBITED CONDUCT

INVESTIGATION LIFECYCLE: FROM ALLEGATIONS TO REFERRALS

From the initial allegation to the closing of an investigation, IG/IN follows a series of steps and procedures as illustrated in the chart.



CASE INTAKE AND ANALYSIS

IG/IN receives allegations of prohibited conduct from multiple internal and external sources, including anonymous reporters. It can also initiate the opening of cases arising, for example, from press reports or proactive fraud detection findings.

The Intake and Analysis Unit assesses and prioritises all incoming allegations of prohibited conduct to determine whether the reported issue is within the mandate of IG/IN or whether an investigation would be appropriate.

During the initial case assessment, IG/IN aims at obtaining as much relevant information concerning the allegation as possible, including a complete description of the alleged wrongdoing, connections to the EIB Group-financed activity, a description of relevant documents, records and possible supporting documentation.

Where the assessment determines that an allegation does not involve EIB financing or cannot be properly investigated (due to a lack of specific details or the age of the matter reported), the case is closed at the assessment stage and does not proceed to investigation. Where a matter falls under the mandate of another office (for example an environmental complaint falling within the mandate of the EIB Complaints Mechanism or the investigation office of another multilateral development bank), IG/IN coordinates the necessary referral process. The Division works closely with OLAF to refer all appropriate matters for OLAF's independent assessment.

INVESTIGATIONS

Investigations are a fact-finding process aimed at determining whether allegations or suspicions of prohibited conduct such as fraud (including tax fraud), corruption, coercion, collusion, obstruction, money laundering or financing of terrorism affecting the EIB Group's activities are factually based. Investigations are conducted in close cooperation with the European Anti-Fraud Office (OLAF), including joint investigation visits as appropriate.

IG/IN's activities are carried out in accordance with the EIB Group Investigations Procedures published on the EIB website. Investigations are undertaken in an objective, confidential, fair and impartial manner, based on a presumption of innocence, with due regard for all individuals or entities involved and in full compliance with the rules on personal data protection.

Staff in the team come from a wide range of different backgrounds. They are former prosecutors, former law enforcement agents, and forensic specialists. In carrying out their work, they collaborate closely with their counterparts in the investigative offices of other international financial institutions or bilateral agencies.

To ensure its effectiveness, the Division enjoys independence in the exercise of its responsibilities within the EIB Group (without prejudice to the powers conferred on OLAF).

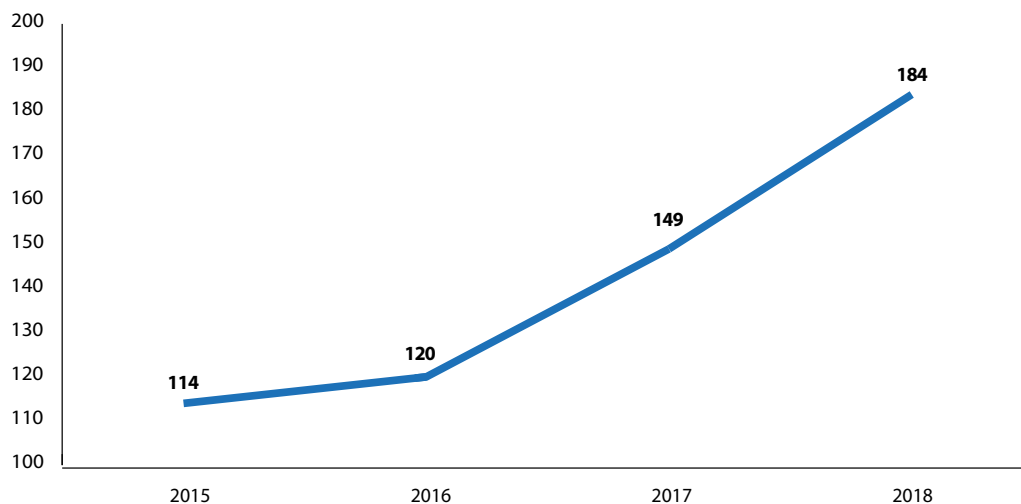
Section 5.5 below presents summaries of specific cases investigated by the Division in 2018 and their outcome.

2018 STATISTICS

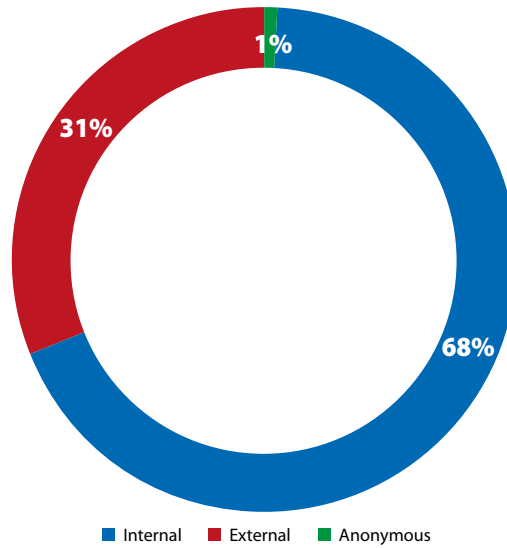
In the course of 2018, IG/IN registered **184 new allegations** and worked on a total of **379 cases** (including cases carried over from the previous year). This was an increase of **23%** in the number of allegations referred to IG/IN compared to 2017.

IG/IN carried out a total of **62 missions** to countries inside and outside of the EU.

NEW ALLEGATIONS RECEIVED BETWEEN 2015 AND 2018



SOURCES OF ALLEGATIONS



68% of allegations were received from internal sources and 31% were received from external sources such as other European institutions or bodies, national authorities, international organisations, civil society and the media. The remaining 1% was received from anonymous sources. While the reports from external sources have remained

stable over the last years, the number of reports by staff members have increased from 54 in 2015 to 126 in 2018. The increased number of new allegations may be explained by the increasing level of internal awareness of the risks posed by fraud and corruption.

2018 CASE ACTIVITY SUMMARY

EIB and EIF	2016	2017	2018
New cases received during the year	120	149	184
Cases closed during the year	116	126	120
Of which at assessment stage	*	*	52
Cases under active investigation (as at 31 Dec)	113	136	200
Cases under monitoring (as at 31 Dec)	40	59	44

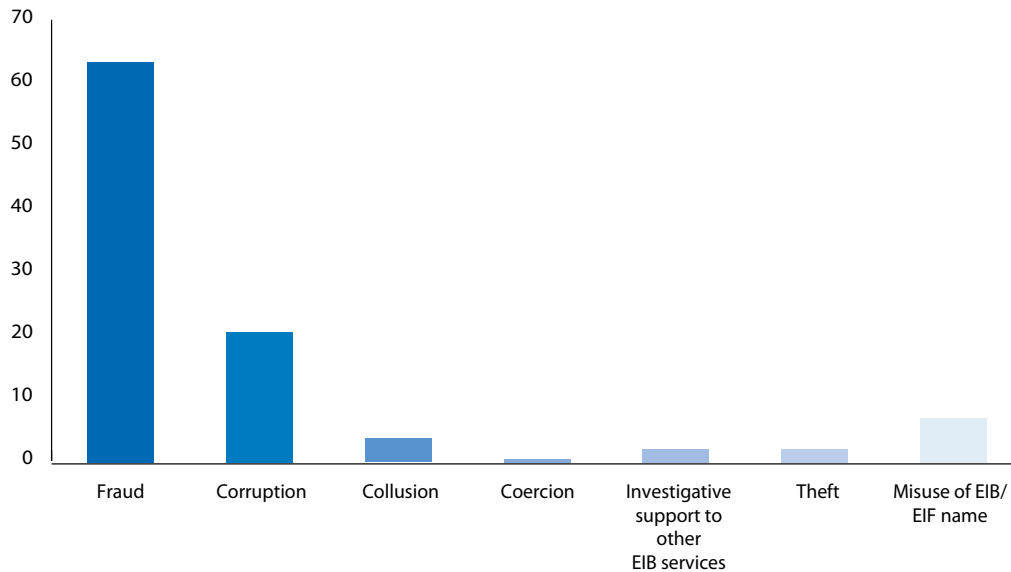
* Following the creation of two separate units within the Division in 2018 (the Intake and Analysis Unit and the Investigations Unit) and changes to the assessment methods, there have been some changes to the statistical groupings.

Of the 184 allegations registered in 2018, 31% proceeded to investigation. 40% of the cases were still under assessment as of 31 December 2018.

38% of the investigations closed in 2018 were found to be substantiated, leading to the issuance of recommendations to EIB Group services and referrals to competent authorities. Examples of the outcome of cases, and further action taken, can be found in section 5.5 below.

ANALYSIS OF 2018 DATA

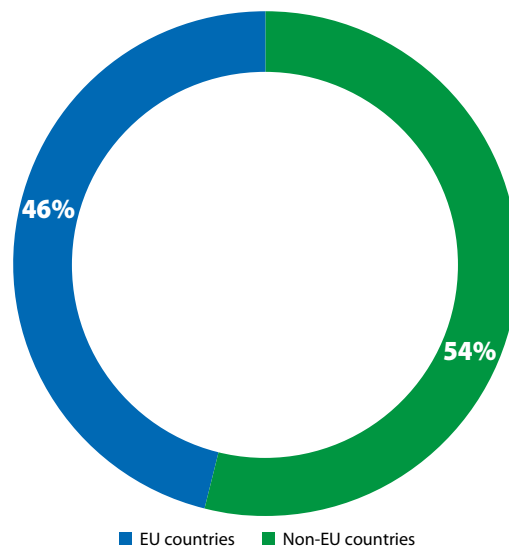
AREAS OF INVESTIGATION



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

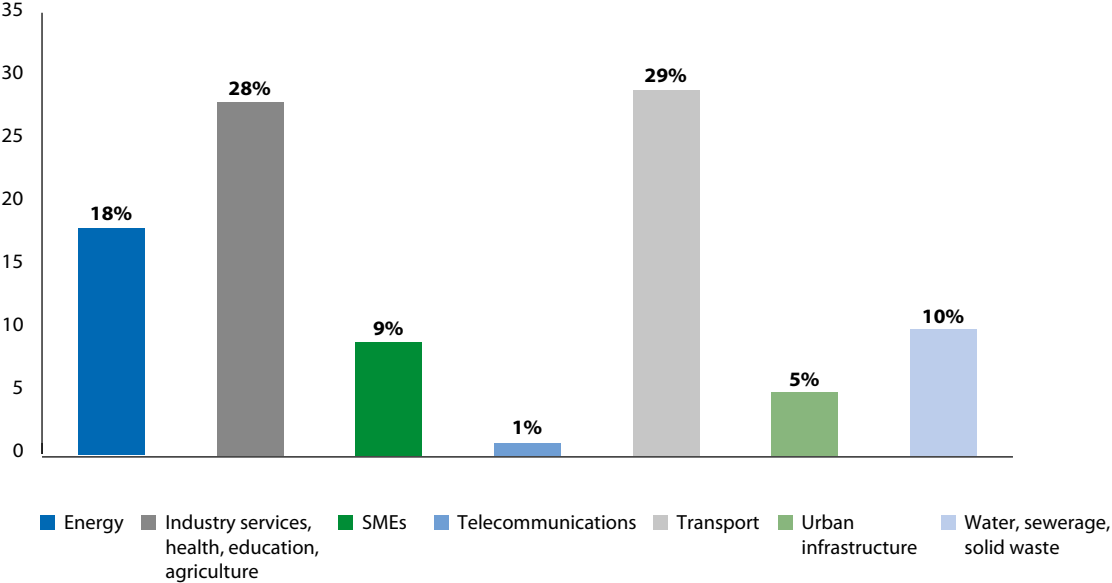
Allegations can be submitted via a dedicated email address (investigations@eib.org), or via the **EIB Group website** (<http://www.eib.org/infocentre/anti-fraud-form.htm>). The reporting form and associated information pages are available in 30 languages.

EIB EXTERNAL CASES – GEOGRAPHICAL SCOPE



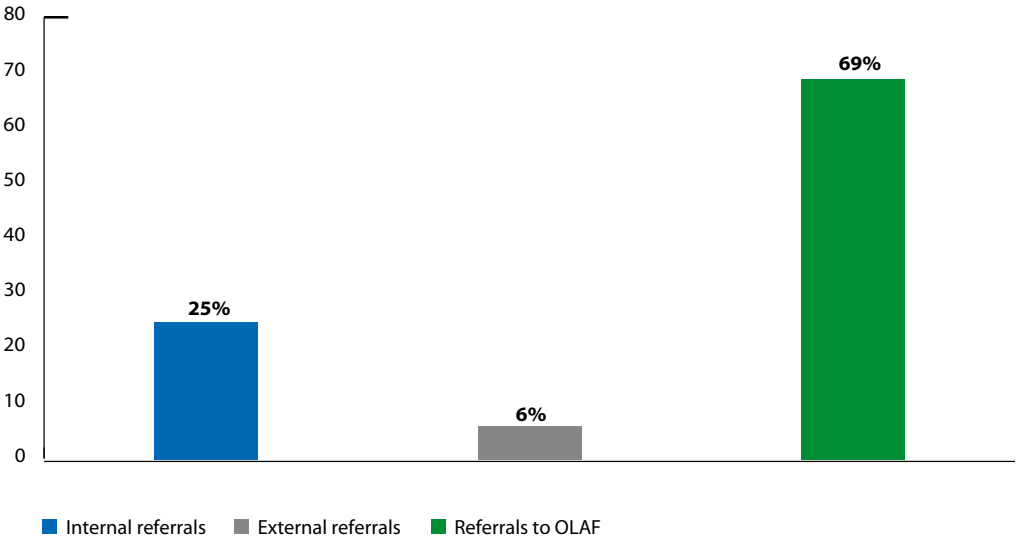
Although about 90% of EIB financing goes to countries inside the EU, more than 50% of the cases reported to IG/IN involved activities outside the EU.

EIB EXTERNAL CASES - SECTORS



The sector most impacted by incoming allegations involving EIB projects was transport, closely followed by industry, services, health, education and agriculture.

EIB GROUP REFERRALS IN 2018



Based on the information and evidence collected by IG/IN, a number of referrals were made to OLAF, to EIB Group services or to national authorities and investigative offices of other international financial institutions, as shown in the above chart.

CASE STUDIES

While the EIB Group is committed to a presumption of disclosure and transparency, it also has the duty to respect both professional secrecy in compliance with laws and legislations and the confidentiality of its investigative process. IG/IN seeks the appropriate balance between transparency and confidentiality when disclosing information on cases it has investigated.

The case studies below feature the different types of allegations handled by EIB Group investigators and their outcomes, as well as the added value IG/IN's work brings to the EIB Group.

INTERNAL CASES

Internal cases involve allegations of prohibited conduct by members of the EIB Group's governing bodies and/or staff members.

In one example, IG/IN found evidence of fraud and, following consultation with the Legal Directorate and other services, filed a complaint with the relevant national authority. This complaint led to the opening of a judicial investigation, under which IG/IN applied for the status of "partie civile" (plaintiff) on behalf of the EIB. IG/IN shared its findings and the lessons learned from this case with senior management and other EIB services, in order to mitigate the risk of this type of fraudulent scheme occurring again in the future.

Also in 2018, IG/IN provided investigative support to other EIB services tasked with fact-finding on harassment and Code of Conduct matters. Computer forensic and other specialist investigation work performed by IG/IN staff led to the identification of relevant evidence, allowing those EIB services to make their decisions based on all available information.

Examples of internal cases investigated in 2018 include:

FRAUD WITHIN EIB EXTERNAL OFFICE

Source	Internal
Red flags	Forged documents and signature
Results	Initiation of legal claim and lessons learned for EIB

In 2017, EIB was informed of an attempted cheque fraud at one of its external offices. IG/IN opened an investigation and, during detailed investigations in the country office involving the inspection of records and interviews with witnesses, it was established that a local EIB staff member had fraudulently cashed cheques intended to be used as payment to local service providers. In addition, the staff member fabricated false EIB correspondence to justify payment delays and a false invoice.

In accordance with the EIB Anti-Fraud Policy, IG/IN provided information to national authorities and assisted the police by sharing findings and evidence collected as part of the IG/IN investigation. As a result of this formal complaint, two people involved in the fraudulent scheme were arrested. Based on the evidence, the case was referred by the police to the local public prosecutor.

The IG/IN investigator was heard by the judge, applied for a *partie civile* status on behalf of the EIB and is following up on the ongoing proceedings. The lessons learned from this case have been discussed with the Audit Committee and senior management. Significant work is underway within the Bank to mitigate the risk of this type of irregularity and prevent it from occurring in the future.

INVESTIGATIVE SUPPORT FOR EIB SERVICES IN HARASSMENT CASE

Source	Internal
Red flags	Alleged harassment
Results	IG/IN forensic evidence and expertise for Personnel Directorate

IG/IN was asked by the EIB Personnel Directorate to assist with a complaint under the Bank's "Dignity at Work" policy, concerning a staff member who was allegedly involved in the harassment of another EIB Group staff member. The request was made in line with the IG/IN Charter. More specifically, Personnel requested specialised forensic assis-

tance to obtain potentially relevant evidence. IG/IN carried out forensic acquisitions and examinations of the computer and EIB mobile phone of the staff member in question.

The evidence obtained by IG/IN in the course of this review was passed on to Personnel for further appropriate action.

FRAUDULENT USE OF TIME REGISTRATION SYSTEM BY EIB STAFF MEMBER	
Source	Internal
Red flags	Manipulation of time registration system, unjustified absence
Results	Uncovering and collecting evidence of fraud and internal referral

IG/IN was requested by an EIB department to check the use of the time management system by a staff member due to concerns about possible prohibited conduct. After receiving the necessary internal approvals, a thorough analysis was conducted of the staff member’s physical presence in the building compared to the clocking times. Significant discrepancies were identified and the relevant evidence was provided to Personnel for appropriate action.

EXTERNAL CASES

External cases concern allegations of prohibited conduct involving parties outside the EIB Group. The examples below cover the three most common types of prohibited conduct encountered by IG/IN in its investigations in 2018: fraud, corruption and collusion.

These investigations uncovered irregularities leading in some instances to the disqualification of bidders and the referral of cases to national authorities for criminal investigation. IG/IN also issued recommendations to EIB Group services to improve internal processes and mitigate fraud and corruption risks.

ALLEGED CORRUPTION IN PROCUREMENT PROCEDURE FOR EIB-FINANCED PROJECT

Region	African, Caribbean, Pacific Countries
Source	External
Red flags	Conflicts of interest and breach of procurement rules
Results	Recommendations for EIB services and promoter to mitigate risks of corruption in project procurement

In early 2018, IG/IN opened an investigation into potential procurement fraud and corruption in a project co-financed by the EIB and other financial institutions. The investigation was conducted jointly with the lead financier, and a technical expert was hired by IG/IN to verify whether the evaluation was conducted in accordance with the technical specifications set out in the bidding document. The reports received by IG/IN alleged that an ongoing procurement process had been influenced in favour of one particular company in the following ways:

- possibly inappropriate communication between the staff of the company and key members of the evaluation committee;
- overseas travel by the managing director of the promoter at the invitation of the company;
- irregularities during the technical evaluation, in particular the company’s technical bid may have been changed significantly during the evaluation process;
- irregularities concerning the opening of financial bids.

IG/IN did not find any evidence to corroborate the alleged corrupt practice, but confirmed irregularities and deficiencies in the procurement process. In particular, the financial bids were not opened in a transparent manner, which posed a significant integrity risk to the procurement process and led to an unsuccessful bidder challenging the procurement process in court. Potential conflicts of interest were also identified. These findings were translated into concrete recommendations, including strengthening the audit trail of bid evaluations and putting in place a strong conflict of interest policy to ensure that the contracting party complies with best practices when dealing with bidders and contractors.

COLLUSION IN PROCUREMENT PROCEDURE FOR EIB-FINANCED PROJECT

Region	Eastern Neighbourhood
Source	Internal
Red flags	Complaints by tenderers and national investigation
Results	Cooperation with national authority and conclusion of MoU

IG/IN received information from an internal source that an Anti-Corruption Centre in an EU Eastern Neighbourhood country was investigating potential collusion between the promoter, the consultant and the successful tenderer in the procurement procedure for an EIB-financed water supply project. Several tenderers had challenged the fairness of the procedure, claiming that the winning company had not met certain qualification requirements. IG/IN investigators held meetings with the representatives of the anti-corruption authority, assisted the national prosecutors by providing relevant information and evidence, and cooperated with the national judicial authorities during their investigation and assessment of whether to launch criminal proceedings. Although the prosecutors ultimately closed the investigation and did not pursue criminal prosecution, the cooperation between IG/IN and the national authorities led to the signing of a Memorandum of Understanding, laying the basis for strengthening and facilitating the exchange of information in any future cases of alleged prohibited conduct involving EIB-financed projects.

FALSE INFORMATION SUBMITTED BY BIDDER IN PROCUREMENT PROCESS FINANCED BY EIB

Region	African, Caribbean, Pacific Countries
Source	External
Red flags	Series of anonymous complaints
Results	Confirmation of fraud, disqualification of bidder, sharing of findings with EIB services

The EIB is co-financing the construction of hydropower plants and a power transmission line in this region to increase the supply of clean and affordable electricity to the national grid. A prequalification process was launched to draw up a list of qualified bidders. The prequalification criteria required the companies to meet financial capacity thresholds and have sufficient technical experience. A joint venture from Asia submitted an application, sup-

ported by a certificate of experience. Based on the information submitted, the joint venture was prequalified and then recommended for the award of the contract. The lenders later received a series of anonymous complaints raising concerns about the actual financial capacity and qualifications of the joint venture, along with allegations of corruption. The IG/IN investigation found that the certificate of experience submitted by the company during the procurement process was false and the bidder was disqualified from the tender. IG/IN's findings were shared with the EIB's services. This led to enhancement of the review and monitoring of companies involved in the joint venture.

PROCUREMENT AND CONTROL DEFICIENCIES

Region	Mediterranean Neighbourhood
Source	External
Red flags	Potential fraud and corruption arising from audit findings
Results	Cooperation with national inspection body and implementation of lessons learned for subsequent project

In this region, the EIB is co-financing a project aimed at supporting the Ministry of Education in its four-year plan to upgrade and modernise the education system. In view of a negative opinion on the project's financial accounts and adverse press articles on the procurement decisions taken by the promoter, IG/IN selected this project for a Proactive Integrity Review (see section 6 below). Based on further information obtained, IG/IN opened a formal investigation.

During its investigation, IG/IN liaised on a regular basis with the relevant national inspection body responsible for auditing the project. Although prohibited conduct was not identified in this investigation, an action plan was issued with recommendations on how to address past procurement deficiencies. Following progress with the implementation of the action plan, IG/IN closed the case. The EIB's services consulted IG/IN before signing a second programme, and the lessons learned from the first project were taken into account when designing the new operation.

FRAUD IN PROJECT PROCUREMENT PROCESS

Region	African, Caribbean, Pacific Countries
Source	External
Red flags	External complaint
Results	Evidence of false information submitted by tenderer and remedial actions

A company reported that its credentials may have been fraudulently used by another company to win two contracts of approximately EUR 20 million each. These contracts were part of an EIB co-financed project, signed in 2017. A joint investigation was conducted with the co-financier's investigative office, which had received the same complaint. After reviewing the procurement process, IG/IN confirmed that the credentials of the complainant had been used by another company (the subject company) in order to qualify technically and financially for the tendering procedure. The subject company claimed in the procurement process that it was engaged in a joint venture with the complainant company, when in fact it was not. The complainant's experience certificates, employee references, equipment and financial information had been submitted in the bid without the complainant's knowledge or approval. IG/IN inspected the books and records of the subject company and obtained further relevant evidence. At the time of finalising this report, the investigation is still ongoing.

ALLEGATIONS OF COLLUSION IN AWARD OF CONTRACT

Region	African, Caribbean, Pacific Countries
Source	Internal
Red flags	Possible collusion in procurement procedure
Results	Findings allow EIB services to make well-informed project procurement decision

This allegation arose in the context of a procurement procedure for a bridge construction project in a country outside the European Union. The promoter informed the EIB that it suspected that a member of the tender evaluation committee may have disclosed the cost estimates to a bidder. The promoter based its suspicions partly on the fact that the bidder in question offered a price very close to the tender price. IG/IN interviewed the members of the evaluation committee and conducted other investigation work to determine whether collusion may have taken place. The

investigation did not reveal any evidence to confirm the allegations. The contract appeared to have been awarded to the most suitable tenderer. IG/IN provided this information to the relevant EIB services which resulted in a "no objection" to the award of the contract. Nevertheless, enhanced monitoring of the implementation of the contract was recommended in order to mitigate the potential risk.

FORENSIC INVESTIGATION AND ASSISTANCE TO NATIONAL AUTHORITY IN FRAGILE COUNTRY

Region	African, Caribbean, Pacific Countries
Source	External
Red flags	Non-competitive contract award
Results	Forensic investigation, assistance to national authority and judicial proceedings against public official

In 2015, EIB signed a financing agreement with an ACP country's national authority providing public utility services. A year later, IG/IN received a complaint alleging bribery and kickback payments in relation to this project.

Investigators from IG/IN provided computer forensic expertise, including the technical examination of the computers and other electronic devices of those allegedly involved in the corrupt scheme.

IG/IN staff encountered a number of challenges during the in-country investigation work, including a difficult security environment and significant technical and resource issues. Tragically, an investigator from the local Anti-Corruption Bureau had been kidnapped and killed shortly before IG/IN's initial visit. Despite these challenges, the forensic work conducted by IG/IN led to the discovery of important evidence of corruption (e.g. chat messages), which was later included in the criminal case.

In 2018, the local criminal court requested an expert witness statement from IG/IN covering the computer forensic process, including provision of evidence in court. A judgement is expected by the end of 2019.

CORRUPTION IN EIB-FINANCED PROJECT

Region	European Union
Source	External
Red flags	National police investigation
Results	Proceedings by national court against public official, general manager of borrower and companies involved in execution of contracts

IG/IN was made aware of a possible case of fraud involving public officials and contractors associated with the implementation of an EIB project. An investigation by the national police found that a public official in the project's city administration, the borrower and other employees were systematically requesting bribes from the contractor. The solicited bribes equated to up to 20% of the value of the contract. The police investigation also found suspicious transactions in the bank accounts of the public official and the borrower's general manager. It was revealed that other companies involved in the project had also paid bribes.

The national court started proceedings against the public official, the borrower's general manager and the companies involved in contracts co-financed by the EIB.

The court documents were sent to IG/IN by the Attorney General. IG/IN is in contact with the national authorities. Based on the outcome of the proceedings, action will be taken in accordance with the EIB Anti-Fraud Policy.

FRAUDULENT EIB REPRESENTATION

Region	European Union
Source	External
Red flags	Complaint from third parties
Results	Uncovering of fraudulent scheme and referrals to national authorities

This case involved a consultant purporting to act as an EIB intermediary. The individual in question claimed to be able to "guarantee" direct EIB funding for clients due to position, expertise, financial resources and inside connections at the EIB. Following its investigation, IG/IN referred its findings to the judicial authorities and several regional and local administrative entities. At the time of finalising this report, our investigators are in contact with the local authorities and are continuing to provide assistance as required.

DETECTION OF PROHIBITED CONDUCT

In addition to investigations, which remain its core area of work, IG/IN's mandate extends to proactive fraud detection. This activity is key to addressing prohibited

conduct issues that might otherwise remain undetected by usual monitoring or not reported. The objectives of this work are to:

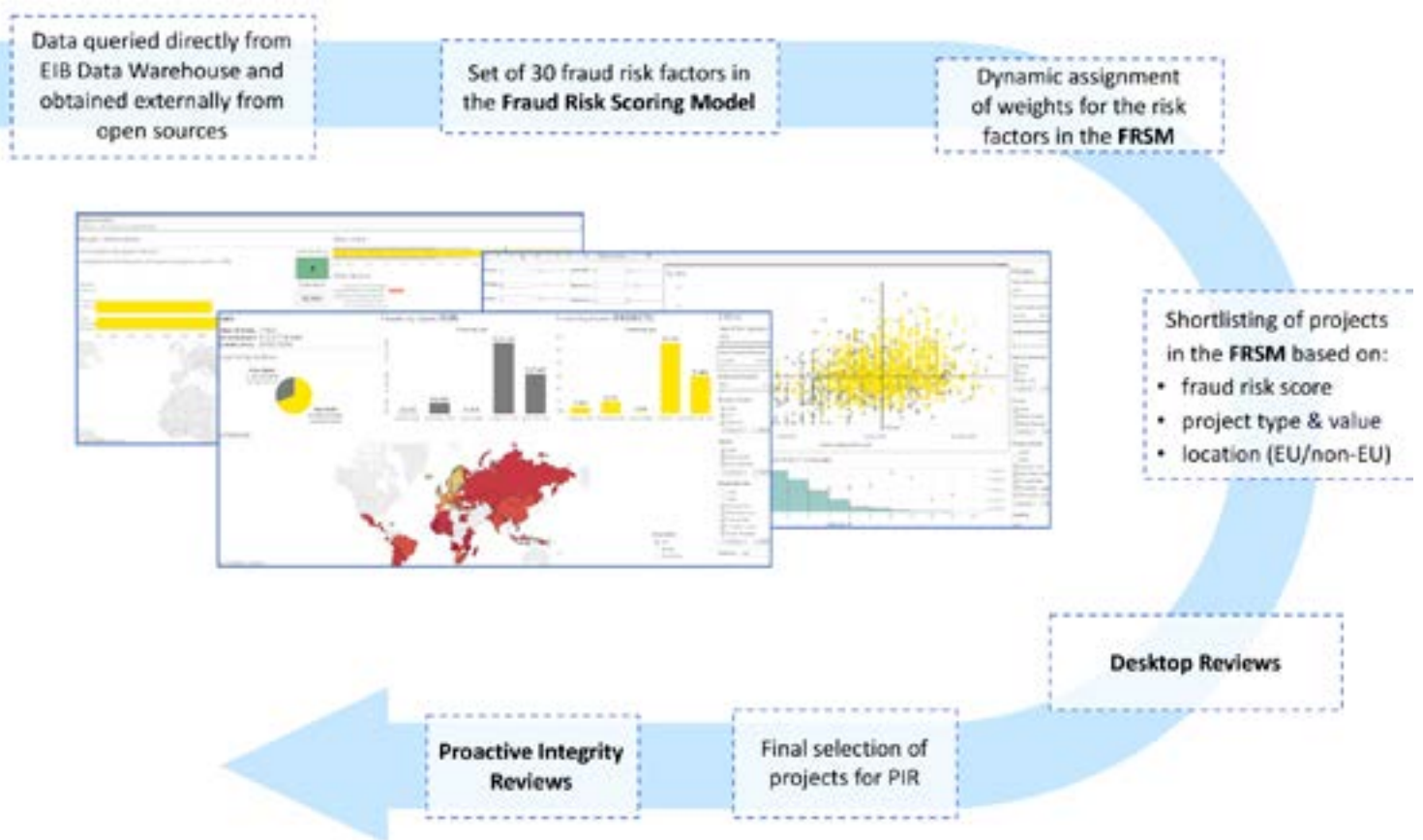
- Help** prevent and detect prohibited conduct at an early stage.
- Determine** if EIB Finance Contracts were implemented according to their terms, EIB policies and mandates.
- Ensure** that EIB's funds were used for their intended purpose(s).
- Recommend** improvements to policies, procedures and controls so as to mitigate the opportunities for prohibited conduct in current and future projects.

In 2017, IG/IN undertook a review of its fraud detection methodology to increase its efficiency, including all EIB projects in fraud risk assessment and improving the identification of red flags for prohibited conduct. In 2018, a pilot implementation project confirmed the efficiency of the

newly developed method – the Fraud Risk Scoring Model (FRSM). One of the projects highlighted by the FRSM was selected for a Proactive Integrity Review (PIR), scheduled for 2019. In 2018, the fraud detection process for EIB projects and operations was also significantly revised.

FROM BIG DATA TO PROACTIVE INTEGRITY REVIEWS: THE WORKFLOW

Detecting prohibited conduct comprises several stages, as illustrated and described in the diagram.



FRAUD RISK SCORING MODEL

The Fraud Risk Scoring Model (FRSM) was developed in 2017 following a detailed review of the financial and operational data available within the EIB, as well as external data sources. In the FRSM, all active EIB operations are scored against approximately 30 risk factors designed to identify red flags relating to project performance, counterparts or location.

Via data visualisation software, FRSM selects a sample of high-scoring EIB operations for further study and analysis (desktop review). IG/IN verifies the system-generated scores and identifies the most suitable operations, from an integrity risk perspective, for an in-depth, on-site Proactive Integrity Review.

PROACTIVE INTEGRITY REVIEW

A small sample of EIB projects (two to three per year), preselected through the FRSM, are then subject to a Proactive Integrity Review (PIR) – a forensic anti-fraud audit. PIRs enable IG/IN to examine an EIB Group-financed project to ensure that the Group's funds are being used for their intended purposes and, in doing so, to assess the project's vulnerability to prohibited conduct. PIRs also identify gaps in areas of higher risk and recommend remedial action. In each case, IG/IN determines if there is a need for a follow-up investigation. The PIR fieldwork is performed on the borrowers/promoters' premises and on the project site. In addition, surveyors and subject-matter experts are contracted by IG/IN to verify the ultimate quality and quantity of the works and goods delivered.

The PIR is the final result of the risk assessment and desktop review process. However, a PIR can also be launched independently by IG/IN on a given EIB Group operation or at the request of other EIB Group services and/or management.

The table below presents the development in the number of PIRs executed per year :

	2016	2017	2018
PIRs ongoing on 1 January	2	1	2
PIRs launched during the year	1	2	3
PIRs closed during the year	2	1	0
PIRs ongoing on 31 December	1	2	5

The five PIRs ongoing at the end of 2018 are being undertaken on eight EIB projects with a total loan value of EUR 631 million.

The outcome of the 13 PIRs finalised and closed from 2010 to 2017 is as follows:

	Number of projects	Value of EIB loans in EUR million
EIB projects subject to PIR	27	1 085
EIB funds proven to be partly misused	5	221

For the five EIB operations partly affected by fraud, the EIB recovered from the borrowers the part of the loans that was misused or subject to fraud or irregularities. In addition, a number of remedial measures and action plans were put in place to strengthen the controls and to mitigate the risk of recurrence of such misuse and irregularities.

DETERRENCE AND REHABILITATION: EXCLUSION AND SETTLEMENTS

EXCLUSION POLICY

The EIB Anti-Fraud Policy states that an individual or entity that is found to have engaged in prohibited conduct may be excluded from participation in EIB-financed projects or operations. To further strengthen this framework, the EIB's Board of Directors approved an Exclusion Policy in 2017.

In 2018, a new EIB webpage dedicated to exclusion was published containing:

- a list of entities publicly excluded from EIB-financed projects and activities;
- a list of historical settlement agreements reached between the EIB and respective parties.

NEGOTIATED SETTLEMENTS

At any time before or during an investigation or during exclusion proceedings, the Inspector General may initiate negotiations with any individual or entity in respect of alleged prohibited conduct.

Such settlements/agreements usually include a period of exclusion, an undertaking to cooperate in any future investigations, the implementation of a risk mitigation strategy and, in certain cases, the funding of international anti-corruption or other relevant initiatives.

NEGOTIATED AGREEMENT WITH VOLKSWAGEN²

On 19 November 2015, OLAF opened an investigation into the alleged misuse of EIB loans by Volkswagen AG for the development and/or implementation and/or purchase of devices aimed at deceiving the regulatory bodies on the real level of gas emissions of vehicles and automotive components manufactured by Volkswagen AG; and alleged misrepresentations created by representatives of Volkswagen AG to obtain these EIB loans.

The OLAF investigation was closed on 19 July 2017 and the underlying report and recommendations were received by the EIB on 27 July 2017.

The OLAF investigation focused on the EUR 400 million loan "VW Antrieb RDI" granted to Volkswagen AG by the EIB in February 2009 for the purpose of co-financing the "Antrieb RDI" project. The objective of the EIB loan was to contribute to financing means and measures for the development of engines and power train components for passenger cars and commercial vehicles as well as investments for the introduction of such means and measures in vehicles and their production. The loan was based on 12 sub-projects, including lightweight automotive construction, double-clutch gears, on-board diagnostic concepts, and new technology to improve fuel efficiency (i.e. reduction of CO₂ emissions) as well as the reduction of other emissions (i.e. NO_x, particles, etc.) for both diesel and petrol engines. Of the total of 12 sub-projects, one sub-project "Dieselmotoren nach EUV und ULEV standards" was related to the technology used in engine EA 189.

² <http://www.eib.org/en/infocentre/press/news/all/agreement-reached-between-the-european-investment-bank-and-volkswagen-ag-in-relation-to-eib-loan-antrieb-rdi.htm>



In the context of the loan approval process, the EIB asked Volkswagen AG in October 2008 to provide relevant information on the environmental impact of the sub-project “Dieselmotoren nach EUV und ULEV standards” and on all important circumstances or important risks that could influence the operational results of the project (change of environmental regulations, changes in the research and development strategy).

OLAF established that, at the time when the EIB loan was disbursed, VW was aware of the serious difficulties encountered in meeting the stringent emissions standards during the development of the EA 189 engine and the use and implementation of a “defeat device” on the EA 189 engine to overcome this problem in a fraudulent manner. The investigation confirmed, however, that the information which Volkswagen AG provided to the EIB did not contain any references either to the above-mentioned serious difficulties or to the “defeat device”. This OLAF finding holds true for the entire duration of the loan.

OLAF concluded that Volkswagen AG deceived the EIB by omitting these pertinent facts to obtain and retain the EIB loan. This omission of relevant information indicates that prohibited conduct has occurred in the context of the loan, according to the OLAF report.

Following this OLAF investigation, in December 2018, the EIB and Volkswagen AG came to an agreement regarding a sub-project part of the EUR 400 million loan, which was granted in 2009 and fully repaid on schedule in February 2014. According to this agreement, Volkswagen AG was excluded from participating in any EIB project during a period of 18 months. Since October 2015, the provision of loans to Volkswagen AG by the EIB had been suspended.

Volkswagen AG committed to sustainability initiatives including environmental protection activities and, in this context, will contribute EUR 10 million to environmental and/or sustainability projects in Europe. Volkswagen AG will continue to inform the EIB on its compliance programme and cooperate with the EIB in the exchange of best practices in relation to compliance standards and the fight against fraud and corruption.



SETTLEMENT AGREEMENT WITH IBERINCO



The EIB and the Spanish Company IBERINCO entered into a Settlement Agreement to address historical misconduct in connection with the Riga Thermal Power Plant 2 Unit 1 Project in Latvia, which was contracted in 2005 and financed by the EIB.

As part of the settlement, IBERINCO was excluded from EIB-financed projects for a 12-month period, which ended in December 2018. In addition, IBERINCO and its group will be developing and implementing a specific sponsorship programme to support activities in the fight against corruption and fraud. IBERINCO will closely cooperate and assist the EIB going forward in its efforts to investigate alleged prohibited conduct in EIB-financed projects. Both parties also agreed to exchange best practices in relation to compliance standards and the fight against fraud and corruption.

From the beginning of the investigation, IBERINCO cooperated with the EIB in clarifying matters related to the wrongdoing addressed. IBERINCO also took the necessary steps to hold employees accountable, and to review its compliance systems to ensure such misconduct is not repeated.



POLICY INITIATIVES IN 2018



REVISION OF EIB AND EIF ANTI-FRAUD POLICIES

Initially adopted in 2008 following an extensive external consultation, the EIB Anti-Fraud Policy was updated in 2013. It formed the basis for the EIF Anti-Fraud Policy, adopted in 2009 and updated in 2015. In 2018, IG/IN launched a review of the EIB and EIF Anti-Fraud Policies in collaboration with other EIB and EIF departments. While not altering the main policy principles, this revision

updates these policies according to relevant changes in EU legislation, developments in the EIB Group's operations and activities and the evolution of international best practices.

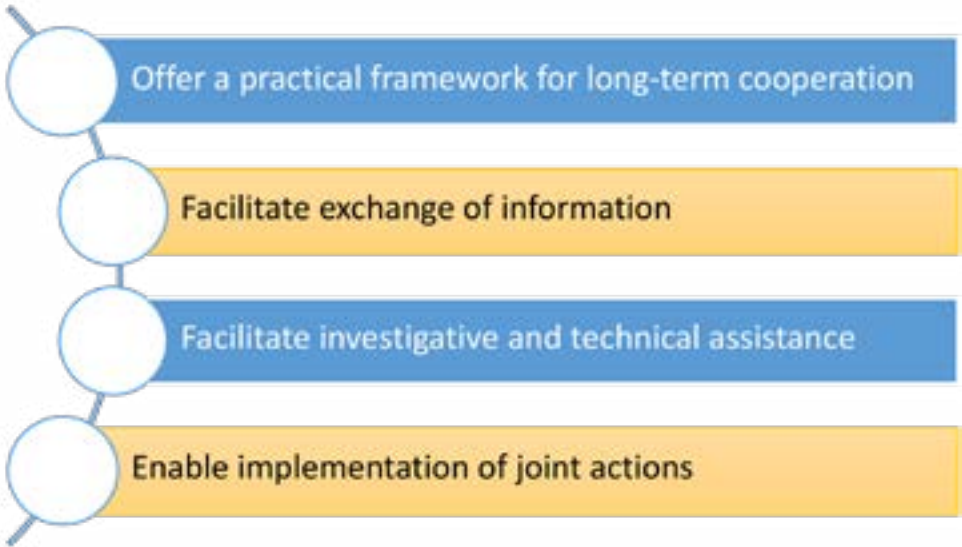
STRENGTHENING COOPERATION AND INFORMATION SHARING WITH NATIONAL AUTHORITIES INSIDE AND OUTSIDE THE EUROPEAN UNION

Strengthening international cooperation is one of the key factors in an efficient fight against fraud and corruption. Under the EIB Group Anti-Fraud Policies, IG/IN may refer suspected prohibited conduct to national authorities within or outside the EU for further investigation and/or criminal prosecution and provide further assistance as requested. Such national authorities include law enforcement bodies, prosecution offices and anti-corruption agencies. IG/IN continued to expand its network of partnerships with national authorities in 2018. IG also coordinates with the EIB's Office of the Chief Compliance Officer

with respect to any money laundering or financing of terrorism cases.

Memoranda of Understanding (MoUs) or other types of cooperation arrangements can be signed by the Bank and the Fund with law enforcement and anti-corruption agencies to facilitate cooperation in cases of mutual interest concerning suspected prohibited conduct.

The added value of MoUs includes:



MoU WITH THE MOLDOVAN NATIONAL ANTI-CORRUPTION CENTRE

The Bank and the National Anti-Corruption Centre of the Republic of Moldova (NAC) signed a MoU on 2 May 2018 at the EIB's headquarters in Luxembourg. The signing ceremony was followed by a seminar open to all staff members on NAC's mission and activities.



From left to right: Bogdan Zumbreanu (Director of the National Anti-Corruption Centre of the Republic of Moldova), Jan Willem van der Kaaij (EIB Inspector General), Barbara Balke (EIB Deputy General Counsel).

MoU WITH THE UKRAINIAN NATIONAL ANTI-CORRUPTION BUREAU

The National Anti-Corruption Bureau of Ukraine (NABU) and the EIB signed a MoU on 27 September 2018 to facilitate the exchange of information and implementation of joint actions by NABU and IG/IN on allegations of fraud and corruption involving EIB-financed projects in Ukraine.



From left to right: Jan Willem van der Kaaij (EIB Inspector General) and Anatolii Novak (NABU Deputy Director).

MoU WITH THE FRENCH ANTI-CORRUPTION AGENCY

The French Anti-Corruption Agency (AFA) and the Bank signed a MoU on 4 December 2018, on the sidelines of the EIB's third Anti-Corruption Conference. The MoU facilitates the exchange of information and the implementation of joint actions by AFA and IG/IN on allegations of fraud and corruption of mutual interest, involving EIB-financed projects.



From left to right: Charles Duchaine (AFA Director), Jan Willem van der Kaaij (EIB Inspector General), Barbara Balke (EIB Deputy General Counsel).

MoU WITH THE OFFICE OF THE PROSECUTOR GENERAL OF HUNGARY

The EIB and the Office of the Prosecutor General of Hungary finalised an arrangement for combating fraud and corruption. Signed in April 2018, the MoU allows both partners to share information gathered during their respective investigations and cooperate in cases of common interest.

PROHIBITED CONDUCT AWARENESS TRAINING FOR EIB GROUP STAFF

In 2018, approximately 500 EIB staff members completed a fraud and corruption awareness training course. Launched in 2009, the training course aims to raise awareness of the risks posed by prohibited conduct, and how to respond in cases where it is suspected. IG/IN provides real-life case examples and lessons learned from its investigations to make this training as relevant and as realistic as possible. In 2018, specific fraud and corruption sessions were organised for the first time in the EIB's external offices in Vienna, Bucharest and Warsaw. Awareness sessions were also delivered to EIF staff members.

Throughout the year, the Division continued to contribute to the Bank's induction programme for new staff members. In particular, IG/IN participated in the "Ethics and Integrity" and "Control and Accountability Mechanisms" sessions delivered to approximately 370 staff members.

In addition, IG/IN has been working, together with the Personnel Directorate, on finalising the new Fraud and Corruption Awareness e-learning programme which will become mandatory for all EIB staff members.

KNOWLEDGE SHARING WITH EIB SERVICES

A number of outreach events were organised throughout the year to raise awareness of the risks posed by prohibited conduct and to pass on lessons learned from investigations. Some of these sessions were jointly hosted by the EIB and counterparts from other international and national prosecution, investigation and anti-corruption offices. While some events targeted EIB staff members from all departments, others were customised for specific teams and lines of work (based on investigations in the respective sectors/regions).

In particular, EIB staff members benefited from presentations made by partners such as the Moldovan National Anti-Corruption Centre and the Ukrainian National Anti-Corruption Bureau. In the follow-up to the case of internal fraud described in section 5.5, a specific fraud awareness session was organised for the heads of EIB external offices.



EIB ANTI-CORRUPTION CONFERENCE

The annual EIB Anti-Corruption Conference, held on 4 December 2018 to mark International Anti-Corruption Day, was the highlight of the Bank's fraud awareness programme. This third edition of the conference brought together around 200 participants, including EIB staff members, representatives of civil society organisations, the European Commission, national and international financing institutions and national anti-corruption authorities.

The event focused on the international fight against corruption, with special attention being given to PIRs as a new area of investigative cooperation.

EIB Vice-President Dario Scannapieco opened the conference, noting that as an EU body and a public bank, addressing corruption risk is a key task of the EIB. He added that the Bank will not "lend at any cost" and has a zero tolerance policy on fraud, corruption and all other forms of prohibited conduct. Vice-President Scannapieco stressed that a single entity cannot win the fight against corruption alone, and that building strong partnerships throughout and beyond Europe is crucial.

Inspector General Jan Willem van der Kaaij said that the Bank had invested heavily in establishing an independent investigation office, to focus on integrity and governance issues and mitigate the risks associated with fraud and corruption.



INTERNATIONAL AWARENESS-RAISING INITIATIVES

In addition to raising awareness within the EIB Group, IG/IN also contributed to discussing fraud and corruption-related issues, as well as sharing best practices and solutions, in various international fora. Harmonisation and exchange of best practices at an international level are important and effective responses to the global fight against fraud and corruption.

In this regard, the Conference of International Investigators is a key forum for investigators of international organisa-

tions to exchange ideas on new and best practices and address common challenges in the fight against fraud and corruption. As part of the conference's permanent secretariat, IG/IN contributes to the agenda and to the development of guidelines to harmonise investigative practices.

IG/IN also attended and contributed to the discussions at the following events:



<p>Multilateral Development Banks Heads of Integrity</p>	<ul style="list-style-type: none"> • These meetings were hosted by the World Bank in Washington DC in June 2018 and by ADB in the Republic of Korea in October 2018.
<p>"Preventing Fraud and Corruption in International and Not-For-Profit Organisations", Geneva, March 2018.</p>	<ul style="list-style-type: none"> • This conference was organised by the International Federation of Red Cross. With the main focus on humanitarian operations, the conference reflected on the damages that can be caused when aid does not reach those who most need help.
<p>13th European Annual Symposium on EU Funds, Berlin, March 2018.</p>	<ul style="list-style-type: none"> • This annual forum brings together EU Funds experts and promotes exchange of knowledge, experience, and best practices between EU Institutions and Member States, with regard to the correct management and control of the European Structural and Investment Funds.
<p>Franco-Tunisian Days Against Corruption, Tunis, April 2018.</p>	<ul style="list-style-type: none"> • This event was organised by the Tunisian National Instance Against Corruption (INLUCC), with the support of the French embassy in Tunis. This event was aimed at strengthening cooperation in the fight against corruption between the two countries and offering a platform for dialogue.
<p>19th Conference of International Investigators, Republic of Korea, October 2018.</p>	<ul style="list-style-type: none"> • This annual event gathered 150 delegates from 40 international organisations and multilateral development banks to discuss a wide range of integrity issues and address challenges in the fight against fraud and corruption.
<p>18th International Anti-Corruption Conference, Copenhagen, October 2018.</p>	<ul style="list-style-type: none"> • This leading global forum on governance and anti-corruption brought together leaders from the public and private sectors, civil society, international organisations and the media, academics to discuss the increasingly complex challenges posed by corruption.
<p>International Corruption Hunters Alliance Meeting (ICHA): Coalitions Against Corruption, Copenhagen, October 2018.</p>	<ul style="list-style-type: none"> • This biennial meeting was hosted by the World Bank Group's ICHA, which brought together representatives from both national authorities and international organisations exchanging best practices and discussing new challenges.
<p>Lecture on "Preventing, Investigating and Sanctioning Fraud and Corruption in an International Context" Paris, September and November 2018.</p>	<ul style="list-style-type: none"> • The lecture was delivered to Master's students at the Sorbonne University, Paris, and to international students at the École Nationale d'Administration.
<p>Basel Collective Action Conference, Basel, November 2018.</p>	<ul style="list-style-type: none"> • The conference reviewed the concept of multi-stakeholder approaches to tackling corruption.
<p>OLAF Anti-Fraud Communicators' Network, Brussels, November 2018.</p>	<ul style="list-style-type: none"> • This annual information and communication network brought together OLAF and its most important partners to discuss how to raise citizens' and the media's awareness to fraud prevention and investigation.
<p>18th Corporate Fraud & Corruption Forum, Amsterdam, November 2018.</p>	<ul style="list-style-type: none"> • The forum brought together an audience of experts and professionals on the topic of fraud and corruption prevention.

“INTEGRITY MATTERS” - BEHIND THE LENS 2018

Each year, the EIB Institute organises “Behind the Lens”, the EIB staff photography competition, advocating diversity and originality and encouraging people to see things in a new light. At the request of IG/IN, in addition to the permanent and recurrent categories, the 2018 edition of “Behind the Lens” introduced a one-off category, “Integrity

Matters”. The purpose was to highlight the importance of integrity, while drawing attention to the problem of unethical conduct, such as fraud and corruption.

The photo *Ssshhh!* was voted the winner in the “Integrity Matters” category.



LOOKING AHEAD – 2019 AND BEYOND

POLICIES DEVELOPMENT

The EIB Group is committed to continuing its active role in the fight against prohibited conduct, including the revision of the EIB and EIF Anti-Fraud Policies in 2019.

The Fraud Investigations Division will also continue to work towards the implementation of the EIB Exclusion Policy.

INCREASING NUMBER OF ALLEGATIONS

IG/IN foresees that the number of allegations will continue to increase in 2019, as in past years.

Fighting fraud and corruption is a collective responsibility in which everyone has a role to play. Staff members, counterparts and other external partners are encouraged to report any suspicions of prohibited conduct potentially impacting EIB Group-financed projects or activities. Allegations can be submitted via the dedicated “investigations@eib.org” email address, by a confidential letter to IG/IN or via a reporting link on the EIB website.³

BETTER DETECTION OF PROHIBITED CONDUCT

The successful results achieved through the implementation of the new PIR methodology and the pilot testing carried out in 2018 will allow increased and optimised PIR coverage of EIB operations and activities using the new Risk Scoring Model. In 2019, the PIR team will systematically apply the new Risk Scoring Model.

STRENGTHENED FRAUD AWARENESS INSIDE THE EIB GROUP

IG/IN will also continue its counter-fraud efforts through staff training and policy strengthening. New fraud and corruption awareness e-learning packages will be launched and made mandatory for all EIB staff members. Support for the EIF in developing an anti-fraud face-to-face training course will be enhanced. IG/IN will continue to work

closely together with and inform other EIB Group services on the lessons learned from investigations, in order to ensure the EIB Group’s anti-fraud and anti-corruption framework is implemented coherently. Likewise, IG/IN aims to continue its outreach activities externally, engaging with representatives of civil society organisations, national and international financing institutions and anti-corruption authorities.

INCREASED EXTERNAL OUTREACH AND AWARENESS RAISING

IG/IN will continue to strengthen international cooperation by liaising with national and international investigation, prosecution and anti-corruption offices and providing assistance in the context of national judicial proceedings to the fullest extent possible. IG/IN will work to expand its network of partners by putting in place further MoUs with partner authorities around the world.

³ Find here an overview of all reporting mechanisms: <https://www.eib.org/en/about/accountability/anti-fraud/reporting/index.htm>. The reporting form is available in 30 different languages under: <https://www.eib.org/en/infocentre/anti-fraud-form.htm>

ACRONYMS

ADB	Asian Development Bank
AfDB	African Development Bank
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDPS	European Data Protection Supervisor
EIB	European Investment Bank
EIB Group	The EIB and the EIF
EIF	European Investment Fund
IDB	Inter-American Development Bank
IG	Inspectorate General
IG/IN	Fraud Investigations Division of the Inspectorate General
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
PIR	Proactive Integrity Reviews
WB	World Bank

CORPORATE

Fraud Investigations

Activity Report 2018



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