



INSPECTORATE GENERAL
FRAUD INVESTIGATIONS

ANNUAL REPORT 2006

Message from the President

The EIB Group has a zero tolerance of fraud and corruption. To achieve that requires appropriate anti-fraud measures in its business dealings and contracts. These measures will be strengthened through the public consultation process on the Bank's anti-fraud and corruption policies and procedures that is on going.

The fight against fraud and corruption at the EIB entails close cooperation with other International Financial Institutions (IFIs) and with OLAF whose remit is the fight against fraud, corruption and other illegal activities detrimental to the Communities' financial interest. The attached report demonstrates that the EIB Group is active on both fronts. In 2006 the EIB has, together with leaders of other International financial Institutions, agreed on a Framework for Prevention and Combating Fraud and Corruption in the activities and operations of our institutions. The co-operation with OLAF is on each and every case that the Inspectorate General investigates. It assures combination of banking and investigative resources to do the investigation work.

Expedient and thorough investigations of allegations is essential to ensure that appropriate action is taken by the Bank and Judicial authorities where fraud or corruption is discovered, or that false accusations are quickly put aside without obstructing the on-going banking business. In line with the increasing transparency of the Bank, this 2006 report will be made public. The report demonstrates the positive steps that the Bank is taking to deal thoroughly, expediently and fairly with investigations and to do so with full involvement of OLAF. It also demonstrates how the Bank is strengthening its anti-fraud and corruption policies and procedures.

Philippe Maystadt
EIB President

1. Introduction

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

Investigations are carried out in close consultation and cooperation with the European Anti-Fraud Office (OLAF). This takes the form of exchange of all relevant information, regular contacts, meetings and joint missions.

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

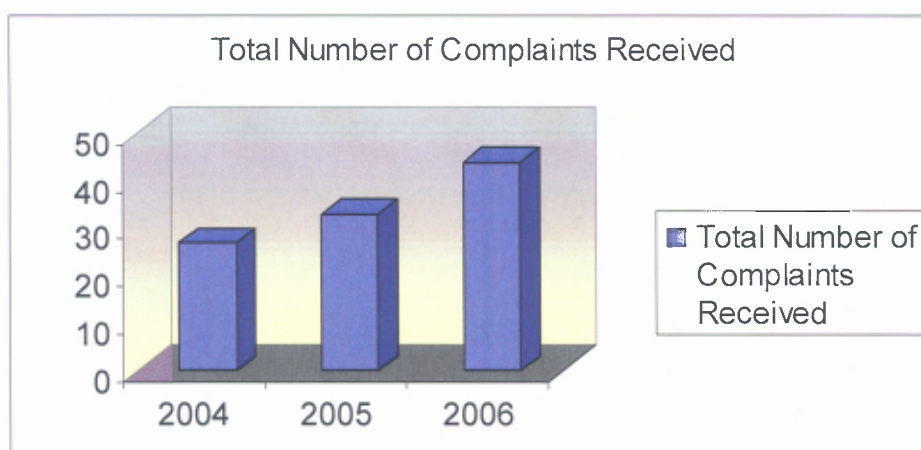
The procedure on how complaints can be made can be found at <http://www.eib.org/news/how-to-report-fraud-or-corruption.htm>

2. Accomplishments in 2006

2.1 Receipt of Allegations

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

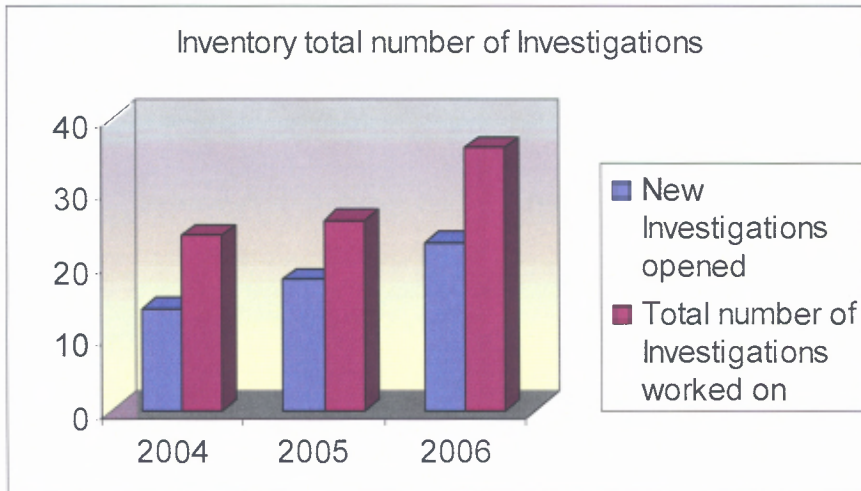
During 2006, the Unit received 44 new complaints compared to 33 in 2005. After screening, it was decided to open 23 new investigations.



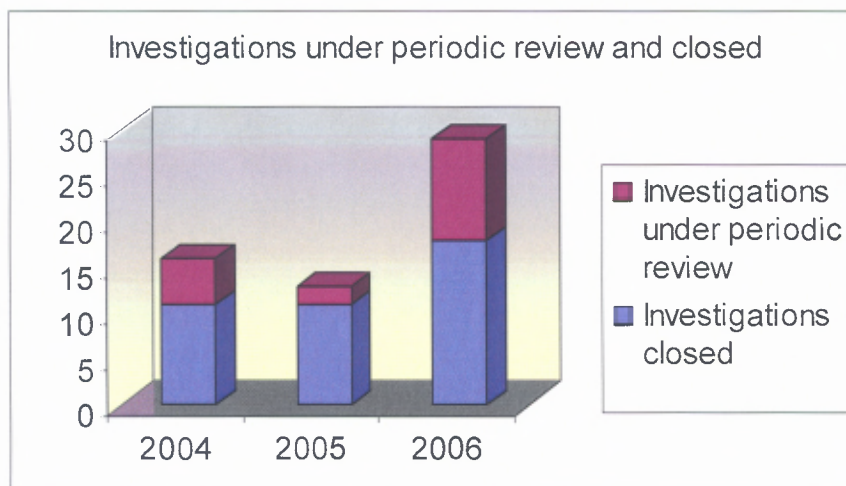
2.2 Investigations

The 23 investigations opened in 2006 compared to 18 in 2005. Together with 13 on-going investigations, the Unit worked on 36 cases in 2006, of which 3 concerned fraud allegations related to investment companies with which the EIF was dealing.

In 2006, the number of cases worked on outside the EU increased from 7 to 16, whereas those inside the EU only increased slightly from 17 to 18.



In 2006, 20 cases were closed. Together with 9 cases put under periodic review, there was a slight decrease in the number of cases open at the end of 2006 compared to end 2005.



Cases were closed for the following reasons:

- insufficient data/proof: 6
- no fraud was found but IG/IN gave recommendations to improve procedure: 4
- non cases: 8 (e.g. because tender procedures proved to be correct or no EIB money involved)
- adequate reaction by promoter: 1
- amount too small to follow up: 1

2.3 Nature of allegations

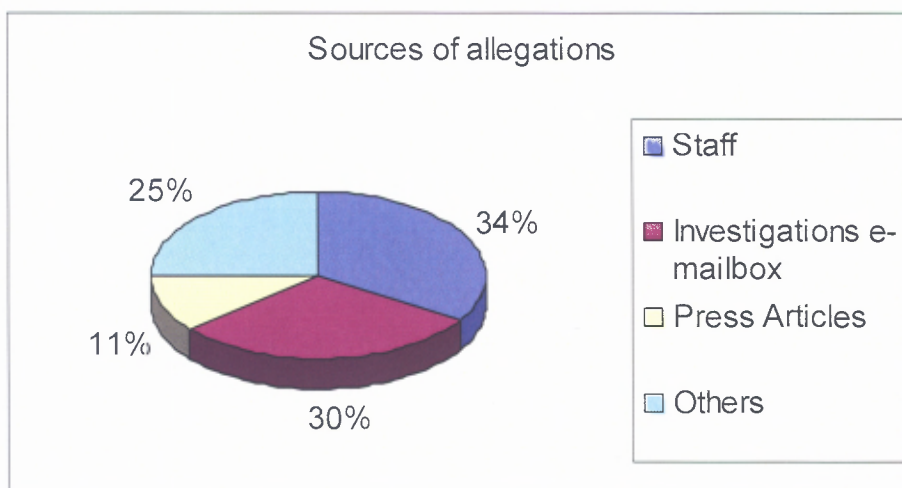
In accordance with the Uniform Framework for Preventing and Combating Fraud and Corruption, agreed between the International Financial Institutions (IFIs), the Inspectorate General defines:

- A corrupt practice as the offering, giving, receiving or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party;
- A fraudulent practice is 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 as 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 is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

Based on these definitions, 83% of cases worked on in 2006 concerned fraud; 13% concerned corruption and there was one case of collusion between bidders (4%).

2.4 Sources of allegations

IG/IN maintains a dedicated 'Investigations' e-mailbox and a confidential fax to receive allegations from outside the Bank. Some of these allegations are sent anonymously. Most allegations originated from staff (34%), followed by those received in the dedicated e-mailbox (30%). Other sources include OLAF, companies and private persons writing to the Bank. The large majority of cases reported by staff members concern EIB lending outside the EU. The largest percentage of 'cases not opened' stemmed from allegations received on the Investigations e-mailbox, as a number were not relevant to the EIB Group.



2.5 Follow up

As follow up of its investigative findings and other activities, IG/IN may include recommendations to the operational and project departments. In addition, IG/IN intends to start fraud-awareness training for staff to be able to better recognise red flags.

The number of ongoing prosecutions is relatively low. This reflects that IG/IN is only operational since 2003. Follow up in terms of possible legal repercussions for suspects of fraud and corruption is mainly classified in the cases under monitoring: the 9 cases monitored by IG/IN at the end of 2006 involved the following:

- cases in court: 3
- cases in pre-court stage: 5 (of which 3 by prosecutors)
- in one case the Bank is arranging a settlement with the government, including full repayment of arrears

3. EIB's Anti-Fraud Policy

From February until September 2006, IG participated in the IFI Anti Corruption Task Force and hosted one of the meetings. The heads of the institutions represented agreed on the harmonisation of their definitions, agree on common principles and guidelines for investigations, the strengthening of the exchange of information and the exploration of cross-recognition of debarment actions. The resulting agreement, signed during the IBRD/IMF annual meeting in Singapore in September 2006, is attached as Annex 2. The full text is available on <http://www.eib.org/news/public-consultation-on-eibs-anti-fraud-policy.htm>.

At the end of 2006, IG/IN prepared two documents, the first containing the EIB's Anti-Fraud Policy. The second was the first codification of its investigative process, based on the Investigative Guidelines agreed in the Uniform Framework. These documents were published on EIB's website for public consultation on February 12.

Interested organizations and individuals are invited to comment on these two documents, allowing for constructive discussions with, and flexible response to, stakeholder proposals and comments. The public consultation will include two rounds. After completion of the of the consultation process, the revised policy and procedures will be presented to the EIB's Management Committee and Board of Directors for decision.

The EIF is not directly involved in the consultation, but has agreed to adapt its anti-fraud measures on the basis of the revised policy. The procedural aspects of IG/IN applied to the EIB are, mutatis mutandis, those applicable to the EIF.

4. Recruitment

An additional member of staff joined IG/IN on February 18, 2007 and took up the post of Senior Investigator. In addition to investigations, he will address the policy work associated with the findings of investigations, as well as the work related to the Anti-Fraud Policy consultations

This takes the number of staff working in IG/IN up to 3. The Unit has also utilized the services of some consultants to assist and advise the Unit in appropriate cases.

5. Contacts with OLAF

There is a continuous working together and exchange of information between IG/IN and OLAF. This ensures that the EIB Group benefits from the full expertise and independence of OLAF as the organisation responsible for investigating fraud and corruption affecting the European community. At the same time, the involvement of IN/IG provides each investigation with banking and investment expertise and know-how. The cooperation with OLAF consists of regular meetings, five joint missions in 2006 and several visits by OLAF to the EIB Group to examine specific banking files and documents.

6. Other international contacts

Apart from the participation in the IFI Anti Corruption Task Force, IG/IN staff members also participated in:

- the 7th Conference of International Investigators;
- the Annual Conference of the Association of Certified Fraud Examiners; and
- the European Anti-Fraud Conference, 26 – 28 September.



P.J. Maertens
Inspector General



S.W. de Vries
Head, Fraud Investigations

Annex 1

Complaints received, worked on and disposed 2004 - 2006

	2004	2005	2006
Total no. of Complaints Received	27	33	44
Cases reviewed but not opened	13 ¹	15 ¹	21
New investigations opened	14	18	23
On-going investigations from previous year and before	10	8	13
Total no. of Investigations Worked on	24	26	36*
Concerning: Inside EU	16	17	18
Outside EU	8	7	16
Internal	0	2	2
Investigations closed	11	11	18
Investigations in monitoring	5	2	11
Investigations open at year end	8	13	7
Field missions	4	6	7
(of which with OLAF)	2	2	5
Cases leading to prosecution - reimbursement	2	2	3
Meetings with OLAF	6 ¹	8	8

* of which 3 relate to the EIF

¹ Estimated: systematic registration started in 2005