



NORDIC  
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THE  
FUTURE



# Integrity Report 2016

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## **Message from the President**

Integrity is one of the pillars that our future is built on. Drawing on the values of integrity, NIB has established codes of conduct for its staff and members of governing bodies. Integrity, however, goes beyond what can be described in codes and rules. Integrity calls on the individuals' qualities of being honest and fair.

To make staff more aware of how to apply the rules of the code of conduct, an e-learning course obligatory for all staff was arranged in the beginning of 2016. It generated a lot of positive feedback and discussions on some of the stipulations in the code. I see such discussions as a good thing. Involving staff who can also challenge the way things are done is required for the Bank to renew itself. To strengthen this aspect, the Board of Directors adopted in 2016 the Speaking-up and Whistleblowing Policy, which purpose is to encourage staff to freely speak up without fear of retaliation.

NIB carries out its operations with integrity and in line with the principles of sustainable development. The projects that the Bank is financing shall enhance the competitiveness and the environment of its member countries, but also meet high integrity standards. In recent years the Bank has stepped up its dialog with borrowers and potential new borrowers that have experienced challenges in relation to corruption and other unlawful behaviour. By providing proactive assistance NIB is aiming at reducing corruption risks in future projects.

With a recently completed integrity risk assessment, NIB can channel more due diligence resources to projects that are seen as having higher integrity risks. In 2017 the Bank will look at ways to translate the findings of the integrity risk assessment into an improved screening procedure of borrowers that is more clear, lean and efficient.

The Office of the Chief Compliance Officer is responsible for investigating cases of alleged corruption, fraud, misconduct and complaints relating to non-compliance with the Bank's policies. Reactive work is a necessary component in all preventive work. The newly established Sanctions Panel and an appeals function will ensure quality in the Bank's sanctioning process.

Henrik Normann  
President & CEO

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## Abbreviations

AML	Anti-money laundering
CCO	Chief Compliance Officer
CoFC	Committee of Fighting Corruption
CSR	Corporate Social Responsibility
CTF	Counteracting terrorist financing
ESG	Environment, Social, Governance
FI	Financial Intermediary
GRI	Global Reporting Initiative
IDD	Integrity Due Diligence
IFI	International Financial Institution
KYC	Know Your Customer
NCJ	Non-compliant jurisdiction
NDF	Nordic Development Fund
NEFCO	Nordic Environment Finance Corporation
NIB	Nordic Investment Bank
OCCO	Office of the Chief Compliance Officer
PEP	Politically Exposed Person
Uniform Framework	IFI Uniform Framework for Preventing and Combating Fraud and Corruption

## 1 Introduction

This is the sixth Integrity Report of the Bank. Previous Integrity Reports can be found on NIB's website, [http://www.nib.int/about\\_nib/compliance\\_anti-corruption](http://www.nib.int/about_nib/compliance_anti-corruption). You can find information about the Bank and its financial results at [http://www.nib.int/about\\_nib](http://www.nib.int/about_nib) and in the Annual Report available at <http://annualreport.nib.int/2016/>.

The Board of Directors approved in 2016 three new policies under the Bank's compliance and anti-corruption framework: the Compliance, Integrity and Anti-corruption Policy, the Investigation and Enforcement Policy and the Speaking-up and Whistleblowing Policy. These policies update and replace existing policies and procedures. As part of the Investigation and Enforcement Policy an independent Sanctions Panel and an appeals function have been established.

Based on the revised compliance and anti-corruption framework the name of the Committee on Fighting Corruption has been changed to the Council of Fighting Corruption with some additional members representing operational departments of the Bank. OCCO is now solely responsible for investigating corruption, misconduct and complaints, while the role of Council has been redefined to be focusing on preventive measures, policy development and to strengthening the links between operations and OCCO.

NIB has in 2016 embarked on an exercise to review its overall compliance and integrity risks, which includes the Bank's measures to counteract money laundering, terrorist financing, tax fraud and tax evasion as well as sanctions screenings.

The Bank's integrity and anti-corruption policies and procedures are aligned with the International Financial Institutions (IFI) Uniform Framework for Preventing and Combating Fraud and Corruption that NIB formally endorsed in 2008.

Two external cases of alleged fraud and corruption were registered by the Office of the Chief Compliance Officer (OCCO) in 2016. These two cases came on top of five earlier cases pending completion. All the mentioned cases are under investigation by national enforcement authorities. OCCO has not initiated its own investigations of these cases, but is following up on the investigations conducted by the national enforcement authorities. Further actions by NIB depend on the outcome of the investigations and possible court rulings in respective countries.

## 2 Proactive and preventive work

The Bank pays much attention to the prevention of fraud and corruption to ensure that the Bank is carrying out its operations and all other activities with a high level of integrity. In terms of compliance and integrity risks the Bank has a three layer defence approach where the operational units of the Bank is the first line of defence, the Compliance function (OCCO) the second and Internal Audit the third line of defence. Integrity is an important element of the various business functions and is well integrated into the credit process of the Bank.

OCCO provides independent advices to all the Bank's business functions with respect to compliance and integrity matters, including helping the Bank to avoid reputational risks. In practical terms this means that integrity concerns are raised at all stages of the credit process and serious issues are escalated to the decision making bodies of the Bank.

The aim of the Bank is to maintain an open atmosphere where integrity concerns are taken seriously and openly discussed. Staff and other stakeholders shall have the possibility to report suspicions and allegations of prohibited practices and misconduct without fear. This aspect of the Bank's activities has been strengthened in 2016 with the new Speaking-up and Whistleblowing Policy. The Policy also provides protection of staff and other stakeholders against retaliation.

## **2.1 Preventive work with the lending operations**

In the Bank's lending operations OCCO provides advice in relation to the application of the Integrity Due Diligence Guidelines (IDD-Guidelines), the Non-Compliant Jurisdictions (NCJ-Policy) and the Anti-Money Laundering (AML) and Counteracting Financing of Terrorism (CFT) procedures. Such consultations take place in relation to projects that are under consideration for financing, under disbursement as well as when new integrity concerns are identified in the regular project monitoring process, or in the annual portfolio review. NIB's Lending department is responsible for the IDD screening. When serious compliance and integrity concerns have been identified, the concerns shall be reported to OCCO and to the decision making bodies of the Bank.

During 2016 OCCO has in particular been consulted on lending operations in the Baltic countries and in relation to projects financed in Latin America through on-lending banks. OCCO's views, including suggested mitigation measures, are presented in the credit proposals. OCCO also regularly presents its opinions to the Credit Committee and on serious matters to the Board of Directors.

According to NIB's IDD Guidelines, NIB should avoid engaging with companies that are under investigation for corruption. This approach may not always be seen as a justified measure, especially when a company itself is not implicated with the actual fraudulent or corrupt practice, but is itself a victim of the wrongdoing of individual staff members who for example have accepted bribe payments. In some of these cases OCCO believes that the lack of, or inadequate, anti-corruption policies within the borrowing entity could be a cause of the problem. Therefore, OCCO has over the past years, in parallel with the investigations conducted by national enforcement authorities, offered its assistance to entities under investigations by reviewing their anti-corruption policies and code of ethics. The aim of this exercise is to find better means for the entities to combat fraud and corruption in their operation. When the policies have been improved the entities stand a better chance to get a loan from NIB and other similar financial institutions. In a few instances has NIB set a condition for providing funding that the potential borrower has implemented anti-corruption policies and procedures satisfactory to NIB.

## **2.2 Preventive work with the treasury operations**

During 2016 OCCO has worked with all the units in the Treasury Department. As a part of the risk assessment of the Bank's integrity risks OCCO conducted interviews with each unit to discuss integrity risks. As a result of these risks OCCO compiled the potential risks that Treasury may face in its operations. Overall, the risks are limited as treasury operations are solely carried out for NIB itself.

OCCO also discussed the topic of insider information issues at Treasury in relation to the different functions that the units have. The results will be used in forthcoming policy development work.

OCCO also carried out a review of the NCJ-screening process in treasury. As a whole, no major shortcomings were identified.

## **2.3 Preventive work with the other operations**

OCCO is also providing assistance in relation to integrity concerns that arise in the Bank's own procurement or in the administration of related contracts. This includes providing comments to new and revised administrative related policies, rules of procedures and instructions.

OCCO coordinates its administrative control activities with Internal Audit and the Risk Management Unit on operational risk matters to ensure that appropriate processes and instructions are in place. The three units share information when considered appropriate, including situations where an integrity issue is reported to one of the units but should rather be considered by another unit. The

information sharing among the controlling functions helps the Bank avoid that serious issues are not properly addressed.

## **2.4 Consultations in relation to the Codes of Conduct**

As an international organisation entrusted with public monies, NIB puts high value on upholding the highest ethical standards and professional objectivity to retain public trust in the institution. NIB has established three separate codes of conduct, i.e. one for the Staff, one for the Board of Directors and the President, and one for the members of the Control Committee. The Codes establish a set of rules on sound business conduct and ethical behaviour.

The codes provide guidance on how to handle confidential information and include clear rules on dealing with inside information and insider trading. If requested by a borrower, a temporary insider list is established to avoid any real or perceived conflict of interest of NIB staff. Besides, the Bank requires all staff, the President and the members of the Board to annually disclose their financial and business interests.

OCCO provides advice and recommendations on a continuous basis to questions relating to the application of the codes of conduct and organises courses on integrity and ethics as part of the Bank's induction programme for all new staff. In 2016 e-learning on the code of conduct for staff was introduced.

## **2.5 Training**

OCCO regularly arranges training sessions for the Bank's staff and members of governing bodies on integrity, anti-corruption and business ethics. The aim of the staff training is to increase the general awareness of the various integrity and compliance risks and to provide operational staff with knowledge and tools to identify fraud and corruption in projects financed by the Bank. For new transaction managers, individual training on the Bank's IDD procedures is provided.

When new policies were adopted under the revised compliance and anti-corruption framework in early 2016, an information session was given to all staff members. As soon as the framework is complemented with revised integrity due diligence procedures the IDD training for operational staff will be intensified.

In 2016 the members of NIB's Council of Fighting Corruption and some operational staff responsible for NIB's lending in Asia were invited to an anti-corruption workshop organised at NIB by the Asian Development Bank and the Nordic Development Fund. The training focused on practical case studies where the participants learned how to identify fraud and corruption risks and how to find relevant information from publicly available sources.

Two members of the Council of Fighting Corruption participated in a two days' investigation training in a side event to the International Investigators Conference of 2016. Different investigation methods were central in this training, including interviewing techniques and online search resources. The Chief Compliance Officer and Compliance Officer attended the Conference which is an annual event gathering investigators from MDBs and IFIs world-wide.

## **3 Investigations of alleged fraud and corruption**

NIB has a zero tolerance of corruption. The Chief Compliance Officer in collaboration with the Head of Internal Audit is responsible for assessing the substance of any allegation of corruption before it is referred to OCCO for further investigation.

As part of the new Investigation and Enforcement Policy adopted by the Board of Directors on 4 February 2016, an independent Sanctions Panel has been established to review OCCO's

investigation reports and decide on possible sanctions, including debarments, of external entities and persons found guilty of corruption in NIB financed projects and borrowing entities. The Policy also establishes an appeals function to secure the rights of sanctioned entities and persons. The Sanctions Panel has three members of which two are external and one internal. The two external members are appointed by the Board of Directors on a 5 year term renewable only once. The internal member of the Panel is nominated by the President on a case by case basis among the Bank's staff members who do not have a conflict of interest in the case at hand.

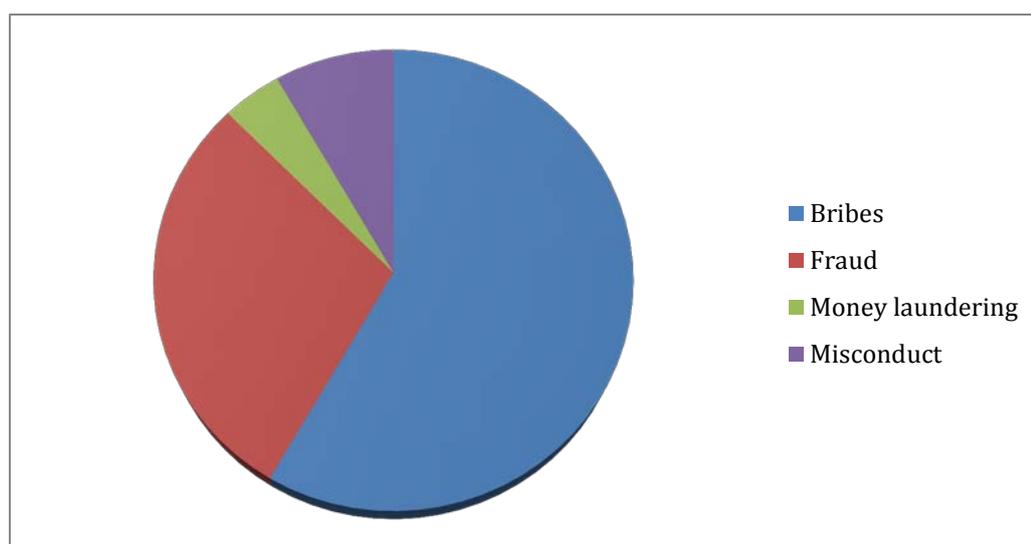
### 3.1 Investigations in Brief

Table 1 shows the number of external cases of alleged fraud, corruption and misconduct that has been registered and processed during 2010 - 2016, including the number of cases that have resulted in sanctions by NIB and/or referred to national enforcement agencies. Figures 1 and 2 respectively show graphically the types of allegations handled and the types of sources that have brought the allegations to the Bank's attention over the same period.

**Table 1 External cases registered and processed during 2010-2016**

By year end	Registered during the year	Handled <sup>1</sup> during the year	Concluded during the year	Pending by end of year	Sanctions decisions by NIB	Referrals to national authorities
2016	2	8	3	5		
2015	3	7	1	6		
2014	4	10	6	4	2	1
2013	6	12	6	6	1	1
2012	3	7	1	6		
2011	1	4	0	4		
2010	4	4	1	3		

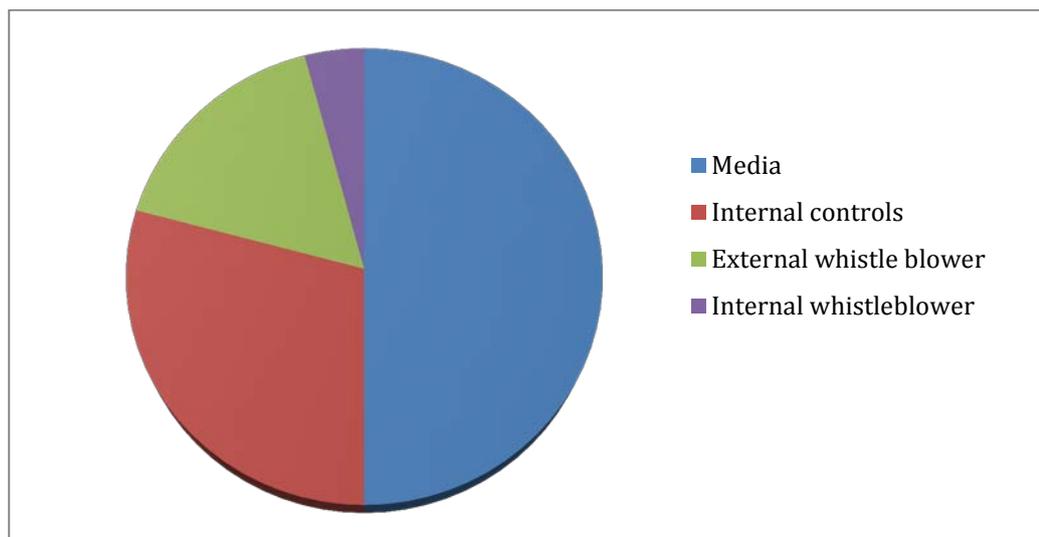
**Figure 1 Types of allegations 2010 – 2016<sup>2</sup>**



<sup>1</sup>Cases under investigation by CoFC and cases under investigation by other IFIs or national authorities and monitored by CoFC

<sup>2</sup> More than one type of allegation may be attributed to an individual case.

**Figure 2 Source of allegations 2010 – 2016 <sup>3</sup>**



### **3.2 Alleged cases of internal fraud, corruption and misconduct**

One case was received and preliminary assessed. In accordance with the Investigation and Enforcement Policy facts were gathered and reported to the President.

### **3.3 Alleged cases of external fraud and corruption**

OCCO registered two new external cases in 2016, one relating to payments of bribes involving high level officials of a NIB borrower and another case with possible conflict of interest and embezzlement involving another borrower. Eight (8) cases were handled by OCCO in 2016, whereof three (3) cases were concluded and closed.

None of the aforementioned concluded cases resulted in sanctions. Two cases were closed due to lack of evidence. One case was closed due to the final decision of a national enforcement authority to not pursue criminal investigation on a case referred to it by NIB in 2014.

By the end of 2016 five cases were pending. All five cases are either under investigation by national enforcement authorities or have been referred to national courts. OCCO is closely following up on these cases with the national authorities. Further actions by OCCO will depend on the outcomes of the national investigations and eventual court rulings. With reference to section 2.1 of this report, OCCO is assisting three of its borrowers undergoing investigations by assessing their anti-corruption policies and code of ethics.

## **4 Transparency and accountability**

NIB promotes good governance and best practice and strives to be transparent in its own operations. The Bank is guided by the principles of transparency, predictability, accountability, responsibility and disclosure. These principles strengthen the Bank's commitment to prevent corruption and to ensure compliance with NIB policies and rules, for example when it comes to sustainability, disclosure of information and procurement.

The Investigation and Enforcement Policy adopted by the Board of Directors in 2016 includes a section on handling of complaints relating to non-compliance with the Bank's policies and rules of

<sup>3</sup> More than one source of allegation may be attributed to an individual case.

procedures. It describes how to lodge a complaint with OCCO and how the complaints will be investigated and reported to the decision making bodies of the Bank.

NIB publishes information about loans when a loan agreement is signed. Before the Board of Directors' approval of a loan classified as a category A-loan<sup>4</sup> NIB shall, in accordance with the Sustainability Policy and Guidelines, disclose information about the project on its website, [www.nib.int](http://www.nib.int). Project descriptions shall, according to NIB's Public Information Policy, include the following: the name of the project; the project promoter or financial intermediary; the location of the project; a short project description; and the environmental impact assessment and/or a summary thereof. The Policy also includes a section on the handling of complaints and provides a link to standard forms used for sending complaints to OCCO. This link can also be found on the Bank's website.

## **5 Cooperation with NIB's stakeholders**

NIB cooperates with other IFIs, national authorities and different stakeholders on a regular basis to ensure that the Bank is up to speed with current developments.

The collaboration with other IFIs' compliance and investigation functions is important for OCCO to maintain a high level of professionalism to benefit the Bank's general integrity and anti-corruption work. NIB strives to harmonise its policies and processes with those of other IFIs and to increase information sharing with the aim of improving the effectiveness of investigations and due diligence processes. In 2016 the cooperation with other IFIs has included regular consultations on NCJ related matters, investigations of reported allegations of corruption as well as policy developments.

NIB collaborates with the anti-corruption functions of NDF and NEFCO with regard to training, information sharing, reviews of each other's anti-corruption policies and procedures and participation in the institutions' anti-corruption and sanction committees. A Memorandum of Understanding on cooperation on integrity matters was signed in 2015.

During 2016 OCCO participated in a number of IFI gatherings, including the annual International Investigators Conference, the annual meetings of the European Chief Compliance Officers and the Independent Accountability Mechanisms of IFIs.

## **6 The Office of the Chief Compliance Officer**

The Chief Compliance Officer reports to the Bank's President and he has unrestricted access to the chairpersons of the Board of Directors and the Control Committee.

No major changes have taken place in the Office of the Chief Compliance Officer during 2016 with regard to its staffing. For more information about OCCO, see NIB's Compliance, Integrity and Anti-corruption Policy available at [http://www.nib.int/about\\_nib/corporate\\_responsibility/compliance](http://www.nib.int/about_nib/corporate_responsibility/compliance).

## **7 Planned activities for 2017**

OCCO's priority is to investigate cases of fraud, corruption, misconduct and complaints reported to the Bank. This includes advising NIB borrowers that have experienced illegal practices in their operations on how to improve their anti-corruption policies and codes of ethics.

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<sup>4</sup> [http://www.nib.int/about\\_nib/environment/environmental\\_analysis](http://www.nib.int/about_nib/environment/environmental_analysis)

Likewise, a priority task is to advise the Bank's operational units on conducting integrity due diligence, identifying critical issues that can cause harm to the Bank's reputation, updating the list of non-compliant jurisdictions, reducing the risk of NIB funds being used for money laundering and terrorist financing and protect the Bank from transferring funds to sanctioned entities or persons.

Collaboration with NIB's correspondent banks that are seeking information in order for them to comply with current KYC regulations is another task that is likely to increase in the coming year.

Training of the Bank's staff and members of governing bodies on integrity, anti-corruption and business ethics is another important mission. To enhance the compliance and integrity competencies, including conducting effective investigations of fraud and corruption and undertaking integrity due diligence, OCCO's staff and members of the Council of Fighting Corruption will receive more training in 2017.

## **8 Contact information**

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