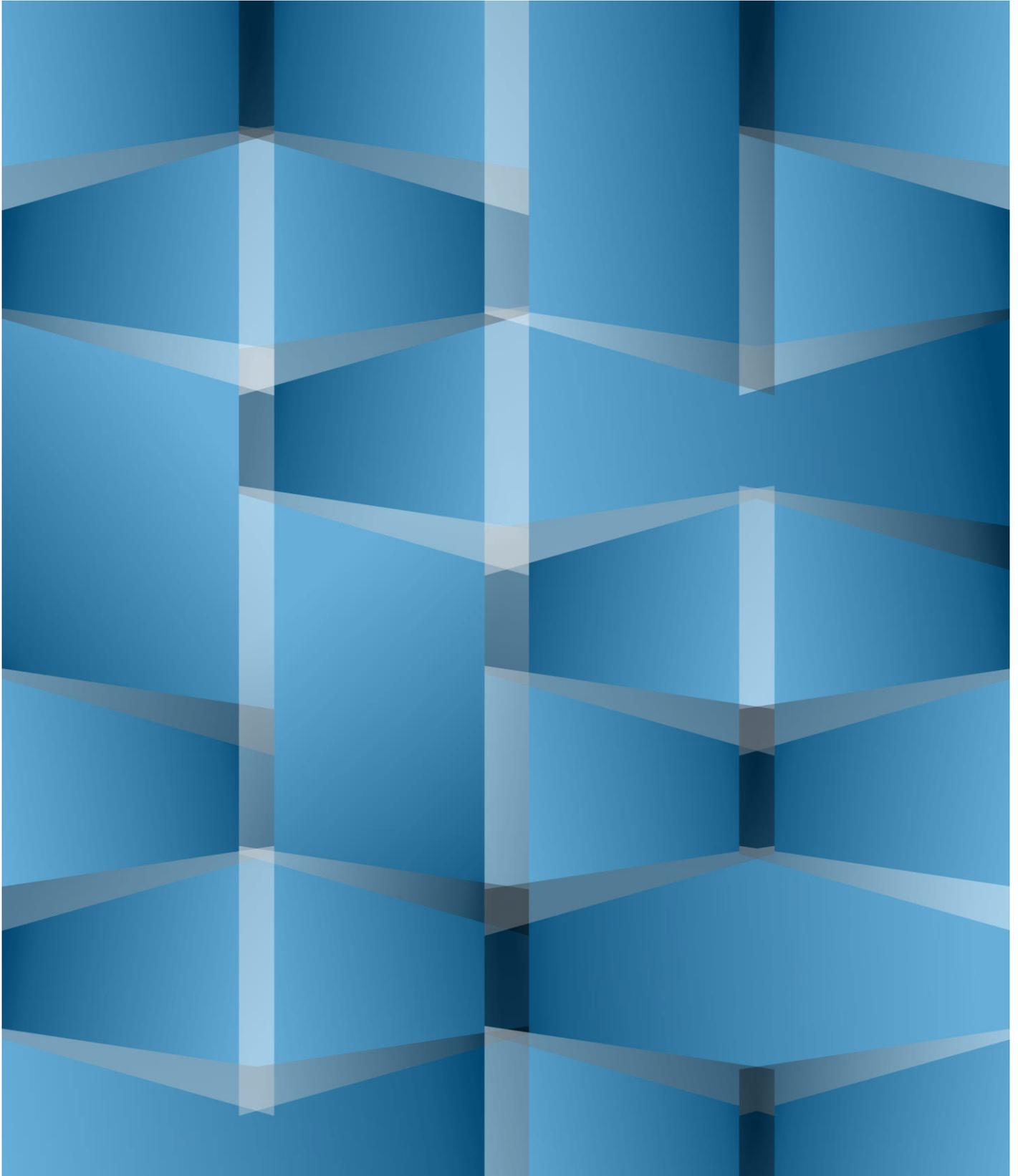


Integrity and Anti-corruption Report 2014



European Bank
for Reconstruction and Development

www.ebrd.com



The EBRD's Integrity and Anti-corruption Report 2014 explains how the Bank has applied and updated its policies and procedures on integrity and anti-corruption during the year ending **31 December 2014**. The report also summarises the Bank's technical cooperation, economic research and analysis, and international dialogue activities in relation to integrity and anti-corruption.

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Email: compliance@ebrd.com

 www.ebrd.com/pages/about/integrity.shtml

How to report fraud and corruption to the EBRD

Complaints, including reports of suspected fraud or corruption, can be submitted to OCCO by email, telephone or in writing at the above address, or via the online form at:

 www.ebrd.com/pages/about/integrity/form.shtml

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President's message

Integrity is one of the EBRD's core values. We are fully committed to promoting good corporate governance and ensuring that the highest standards of integrity are observed in all of the activities of the Bank in the region where we operate. Pervasive corruption was identified in EBRD's [Transition Report 2014](#) as one of the key constraints in the business environment affecting innovative companies in our countries of investment.

In 2014, the Bank invested €8.9 billion in more than 30 countries from Morocco to Mongolia. This represents an increase of €355 million from 2013 and was achieved despite serious challenges including geopolitical tensions, market and currency volatility and slowing growth in some countries.

Through policy dialogue, capacity- building and project work supported by extensive due diligence, the EBRD plays a crucial role in helping to improve the business climate in our countries of operations. And as this report testifies, the EBRD has successfully responded to the challenge of working in new countries while maintaining the highest standards of integrity and governance in its projects. The Bank also applies these high standards to its internal activities and 2014 saw the EBRD strengthen its mechanisms in this area, in particular through the implementation of enhanced whistleblower protection.

In 2014, we intensified our already extensive anti-corruption efforts with the launch of the Investment Climate and Governance Initiative (ICGI), in coordination with national and international partners. We signed agreements with the Albanian, Moldovan, Serbian and Ukrainian governments to help them build institutional frameworks to combat corruption and ultimately improve the investment climate. The ICGI is only one example of the policy dialogue instruments that the EBRD uses to maximise the impact of its investments.

Given the uncertain global economic outlook and the pressure that this puts on companies, it is likely that the need for vigilance will increase over the coming years. A key element of the recently adopted Medium-Term Directions, which set out the Bank's high-level strategic objectives, is to help countries build economic resilience through strong policies, institutions and economic structures. At times like these, the EBRD stands ready as a strong, reliable and effective partner in the fight against corruption.



Sir Suma Chakrabarti
EBRD President

Abbreviations

ABI: Annual Bank Investment
ADB: Asian Development Bank
AMEDD: Agreement for the Mutual Enforcement of Debarment Decisions
AML: Anti-money laundering
BEEPS: Business Environment and Enterprise Performance Survey
BIDD: Business Intelligence Due Diligence
CDRP: Conduct and Disciplinary Rules and Procedures
CFT: Countering the financing of terrorism
EAG: Eurasian Group on Combating Money Laundering and Terrorist Financing
EBRD: European Bank for Reconstruction and Development
EIB: European Investment Bank
EITI: Extractive Industries Transparency Initiative
EPP: Enforcement Policy and Procedures
FATF: Financial Action Task Force
ICGI: Investment Climate and Governance Initiative
ICHA: International Corruption Hunters Alliance
IDB: InterAmerican Development Bank
IDD: Integrity Due Diligence
IFI: international financial institution
IMF: International Monetary Fund
LTP: Legal Transition Programme
MENA: Middle East and North Africa
MDBs: Multilateral Development Banks
ND: Nominee Director
OCCO: Office of the Chief Compliance Officer
OCE: Office of the Chief Economist
OECD: Organisation for Economic Co-operation and Development
OFAC: Office of Foreign Assets Control
OLAF: European Anti-Fraud Office
PCM: Project Complaint Mechanism
PEPs: Politically Exposed Persons
PP&Rs: Procurement Policies and Rules
SEMED: Southern and eastern Mediterranean
SMEs: small and medium-sized enterprises
TI: Transparency International
UNCITRAL: United Nations Commission on International Trade Law
WBG: World Bank Group

1. Introduction

1.1 Purpose of the report

The European Bank for Reconstruction and Development (EBRD) (“the Bank”) is committed to achieving the highest standards of governance, integrity and transparency in the conduct of its business.

This commitment translates into a comprehensive and robust approach to the management of integrity risks associated with the Bank’s investment activities and the performance of Bank personnel.

The EBRD’s **Integrity and Anti-corruption Report 2014** explains how the Bank has applied (and, where relevant, updated) its integrity and anti-corruption policies and procedures during the year ending 31 December 2014.

The report also summarises related activities undertaken by the Bank during the year in the context of technical cooperation and policy dialogue, economic research and analysis and international cooperation.

The report is issued by the EBRD’s Office of the Chief Compliance Officer (OCCO) and is published on the Bank’s website.

Further information on the issues addressed by this report – including key EBRD policies and guidelines, information on OCCO and guidance on how to report fraud and corruption – is available online:

 Integrity and compliance
www.ebrd.com/integrity-and-compliance.html

Integrity and anti-corruption at the EBRD

Risk management

The EBRD’s focus on integrity and anti-corruption centres on client-related risks associated with the Bank’s financing activities and risks associated with the personal conduct of Bank staff members.

General principles

The Bank’s anti-corruption strategy is organised on four key principles: prevention, detection, investigation and enforcement. While each of these is equally important, the EBRD places a particular emphasis on *ex-ante* measures. The effectiveness of the Bank’s pre-investment screening is reflected in the quality of the Bank’s project portfolio and transition impact.

Transition impact

As a major investor in enterprises and financial institutions based in or operating out of its countries of operations, the EBRD also seeks to promote high ethical standards, integrity and good business practices as a key transition component in its work.

International cooperation

The EBRD works closely with other international financial institutions and other relevant organisations on the coordination of anti-corruption efforts and actively participates in the international development and dissemination of best practice and experience.

Key areas of activity

The EBRD’s integrity and anti-corruption activities include improving the Bank’s internal management systems; conducting investigations and imposing sanctions where appropriate; the delivery of technical cooperation projects in the Bank’s countries of operations; and cooperation and coordination at the international level. The EBRD’s Office of the Chief Compliance Officer (OCCO) plays a key role in advising and supporting the Bank in all aspects of this work.

1.2 The year in context

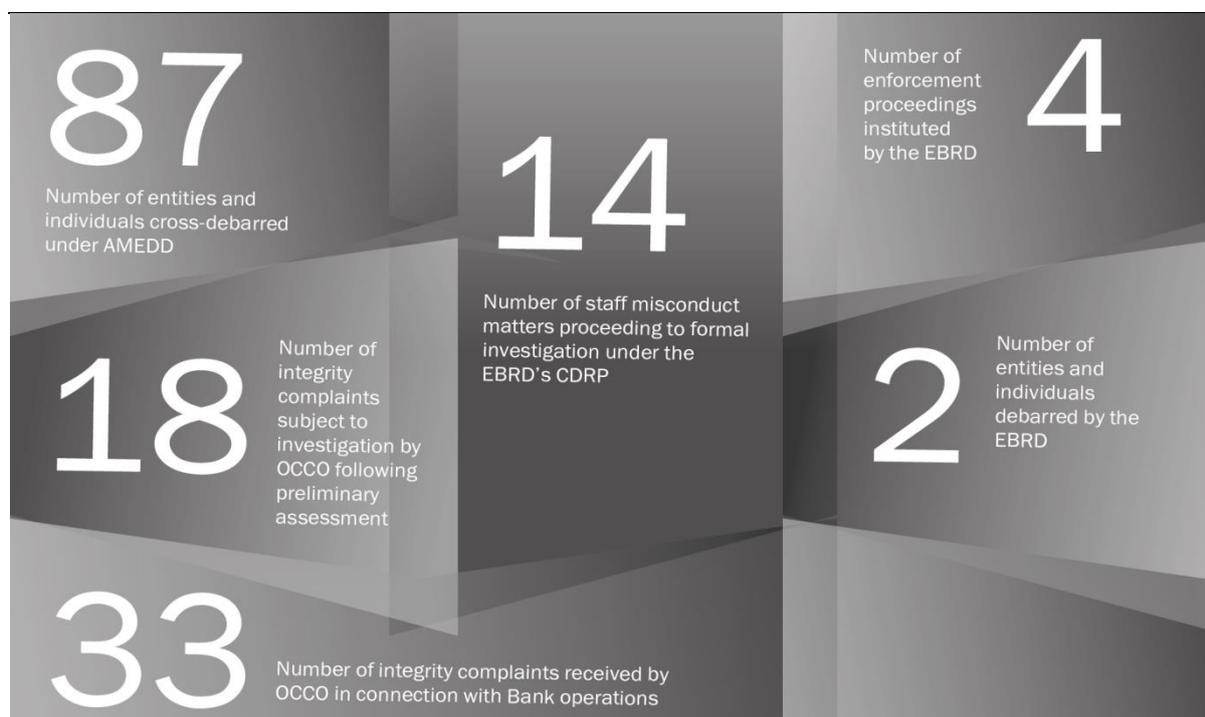
In 2014 major economic and political challenges affected the pace of transition in many countries where the EBRD works. The Bank responded to this difficult environment by, once again, delivering significant investment and transition impact by way of total Annual Bank Investment (ABI) for 2014 of €8.9 billion in 377 operations across more than 30 countries. ABI in the financial sector reached €2.8 billion (with SME financing a priority), in the diversified corporate sectors €2.3 billion, in the infrastructure sector €2 billion and in the energy sector €1.7 billion.

The EBRD's **Annual Report 2014** contains detailed information on the Bank's operational activities and results during the reporting period and provides further context for the integrity and anti-corruption review provided in this report

 Annual Report 2014
www.ebrd.com/pages/research/publications/flagships/annual.shtml

EBRD in 2014

Number of projects signed	377
Annual Bank Investment (ABI)	€8.9billion
Private sector share of ABI	72 per cent
Early transition countries' share of ABI	13 per cent
Proportion of transactions for amounts below €10 million	57 per cent
Proportion of projects rated as having 'good' or 'excellent' transition impact potential	89 per cent
Portfolio as at 31 December 2014	€38.7 billion
Number of employees as at 31 December 2014	1,848
Number of Resident Offices	38



1.3 About the EBRD

The EBRD is an international financial institution (IFI) owned by 64 countries, the European Union and the European Investment Bank. Established in 1991 at the beginning of the post-Cold War era, at the end of 2014 the EBRD region consisted of 35 countries in central and eastern Europe, Central Asia and the southern and eastern Mediterranean.

The EBRD's mandate is to facilitate the transition to open and democratic market economies. It achieves this by investing in projects, engaging in policy dialogue and providing technical advice. The Bank is the largest single investor in its region and mobilises significant foreign direct investment into its countries of operations. The Bank works mainly with private enterprises, usually together with commercial partners, and provides project financing for the financial sector and the real economy, both new ventures and investments in existing companies. The Bank also works with publicly owned companies to support privatisation, the restructuring of state-owned firms and improvement of municipal services.

The EBRD maintains a close political dialogue with governments, authorities and civil society organisations to promote its goals. It also works in cooperation with international organisations such as the OECD, the IMF, the World Bank and the UN.

The Bank funds its financing activities partly through the issuance of bonds on the international capital markets. In addition, the EBRD's activities are strongly supported by the Bank's Special Funds programme and donor-funded Technical and Investment Cooperation Funds.

The EBRD region in 2014

Central Europe and Baltic States

Croatia
Estonia
Hungary
Latvia
Lithuania
Poland
Slovak Republic
Slovenia

South-eastern Europe

Albania
Bosnia and Herzegovina
Bulgaria
FYR Macedonia
Kosovo
Montenegro
Romania
Serbia

Eastern Europe and the Caucasus

Armenia
Azerbaijan
Belarus
Georgia
Moldova
Ukraine

Central Asia

Kazakhstan
Kyrgyz Republic
Mongolia
Tajikistan
Turkmenistan
Uzbekistan

Russia

Turkey

Southern and eastern Mediterranean

Egypt
Jordan
Morocco
Tunisia

Cyprus

The EBRD's investment role

Every EBRD investment must:

- support the further development of sound market economies
- take risk that supports private investors
- follow sound banking principles
- strengthen sustainability.

Through its investments, the EBRD promotes:

- economic growth in its countries of operations
- entrepreneurship, competition and privatisation
- stronger financial institutions and legal systems
- infrastructure development
- adoption of strong corporate governance, including environmental sensitivity
- structural and sectoral reforms.

The EBRD:

- promotes co-financing and foreign direct investment
- mobilises domestic capital
- provides technical assistance.

2. Overview of core integrity tools

2.1 Introduction

This chapter provides an annual overview of the main policies, procedures, organisational units and training programmes that are specifically and directly concerned with integrity and anti-corruption at the EBRD. High standards of corporate governance, risk management and accountability are embedded in all aspects of the EBRD's activities and business processes. This chapter does not therefore attempt to provide a comprehensive and exhaustive treatment of all Bank processes that contribute to the integrity of the Bank and its anti-corruption efforts.

2.1 Office of the Chief Compliance Officer

OCCO is the principal organisational unit within the EBRD that is specifically tasked to address integrity and corruption issues. OCCO's mission is to protect the integrity and reputation of the Bank, to promote ethical standards of behaviour and to strengthen the Bank's accountability and transparency. OCCO assists in identifying, assessing and monitoring integrity risks arising from the failure to comply with the Bank's standards and policies and contributes, in an independent manner, to the Bank's effective management of integrity risks. OCCO is responsible for the development and maintenance of the policies and standards it enforces.

OCCO is independent from all operational departments in the EBRD and is headed by a Chief Compliance Officer (CCO) who reports directly to the President and has full and free access to the EBRD's Audit Committee. In July 2014, Lisa Rosen became the new Chief Compliance Officer, succeeding Eney Quinones in the role. During the reporting period, there were no other material changes to OCCO's functions, management structure or staffing.

In order to carry out its mission, OCCO, which is comprised of 16 staff members, is organised along four principle lines as follows:



The Transaction Advice team is responsible for issues of *ex-ante* integrity due diligence, anti-money laundering (AML) and countering the financing of terrorism (CFT). Issues of confidentiality, conflicts of interest, corporate governance and ethics are addressed by the Ethics and Policy team. This team also trains and, as necessary, advises EBRD staff members and external candidates who are appointed as directors to the boards of companies in which the EBRD holds an equity interest. The Investigations team is responsible for investigating allegations of fraud or corruption in the Bank's projects and allegations of misconduct by Bank staff. Together, these teams work to promote good governance and to ensure the highest standards of integrity are applied throughout all of the activities of the EBRD in accordance with international best practice.

Additionally, the Project Complaint Mechanism (PCM) is located within OCCO. This is the Bank's accountability mechanism for the assessment and review of complaints about Bank-financed projects and is concerned with the EBRD's Environmental and Social Policy and certain aspects of the EBRD's Public Information Policy. As such, the PCM does not come within the scope of this report on integrity and anti-corruption. The Bank publishes a separate annual report on the PCM which is available on the EBRD website (see below).

🔗 Office of the Chief Compliance Officer
www.ebrd.com/integrity-and-compliance.html

🔗 Project Complaint Mechanism
www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html

2.3 Key policies, procedures and guidelines

The main policies, and procedures and codes that deal with integrity and anti-corruption issues in the conduct of the EBRD's business are summarised overleaf. In 2014 the Bank conducted a periodic review of its Integrity Risks Policy, Conduct and Disciplinary Rules and Procedures (CDRP) and its Enforcement Policy and Procedures (EPP).

A more substantive review of the CDRP and EPP will be completed during 2015.

Information on the application of the Bank's integrity and anti-corruption policies and procedures during 2014 is provided in Section 3.

In addition to these key OCCO policies, the Bank's policy on Domiciliation of EBRD clients is an important tool for managing integrity issues associated with projects where the clients use third jurisdictions (that is, where a project entity or a controlling entity is located outside the relevant country of operations).

 Domiciliation of EBRD clients
<http://www.ebrd.com/downloads/policies/sector/domiciliation-policy.pdf>

Key policies, procedures and codes dealing with integrity and anti-corruption

Integrity Risks Policy

The EBRD's **Integrity Risks Policy** was approved by the Board of Directors in April 2009 and provides the primary articulation of the Bank's corporate values and principles with respect to the management of its integrity risks. Among other things, the Policy identifies and defines the main types of integrity risks with which the Bank is concerned and summarises responsibilities for integrity and ethics in the Bank, including the leadership and oversight roles of the Board of Directors, the Audit Committee, the President and senior management.

 Integrity Risks Policy
www.ebrd.com/downloads/integrity/integrityriskpol.pdf

The Policy also sets out terms of reference for OCCO and the manner in which OCCO helps the Bank to protect its integrity and reputation and to manage integrity risks related to clients and personal conduct of Bank personnel. The Integrity Risks Policy was revised with effect from 2 June 2014 to incorporate, among other things, the Bank's cross-debarment commitments under the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD).

Codes of Conduct

The EBRD's **Code of Conduct for Officials of the Board of Directors of the EBRD** and **Code of Conduct for EBRD Personnel** represent and articulate the values, duties and obligations and ethical standards that the EBRD expects of its Board officials and staff. Both Codes of Conduct are approved by the Board of Governors of the EBRD. The Code of Conduct for EBRD Personnel applies to the President, Vice-President, Chief Evaluator and staff members. The Code of Conduct for Board Officials applies to Directors, Alternate Directors, Temporary Alternate Directors and Advisers.

 Code of Conduct for Officials of the Board of Directors of the EBRD
www.ebrd.com/downloads/integrity/COCboard.pdf

 Code of Conduct for EBRD Personnel
www.ebrd.com/downloads/integrity/COCstaff.pdf

Together with the EBRD's **Conduct and Disciplinary Rules and Procedures (CDRP)**, the Codes set out the types of acts or omissions that may be considered as misconduct and the procedures to be followed with respect to investigating and, where appropriate, sanctioning such improper behaviour. Both Codes of Conduct were revised with effect from 29 February 2012. The CDRP were amended in 2014 to reflect certain elements of the enhanced whistleblower protection regime and are currently undergoing a substantive review.

Enforcement Policy and Procedures

The **Enforcement Policy and Procedures (EPP)** of the EBRD set out the Bank's policy and procedures for processing allegations of prohibited practices in relation to activities and projects financed from the Bank's ordinary capital resources or from Special Funds resources, or from cooperation funds administered by the Bank. The EPP include a definition of the Prohibited Practices of fraud, corruption, collusion and coercion that is harmonised with the Uniform Framework for Preventing and Combating Fraud and Corruption. The current EPP were first introduced in March 2009 and most recently revised in April 2014 to reflect the enhanced whistleblower protection regime and to introduce a new prohibited practice of theft. A more substantive EPP review is due to complete in 2015.

 Enforcement Policy and Procedures
www.ebrd.com/downloads/integrity/epp.pdf

The EPP set out policies and procedures for, *inter alia*:

- the investigation by OCCO of reports of suspected Prohibited Practices
- the composition and decision-making powers of the Bank's Enforcement Committee
- the issuance of Notices of Prohibited Practices and Notices of Third Party Findings
- the commencement and contestation of Enforcement Proceedings
- Enforcement Decisions and Disclosure Actions available to the Bank
- Notices of Mutual Enforcement of Debarment Decisions by institutions that are signatories to the AMEDD.

2.4 Whistleblower protection

The EBRD has long recognised that whistleblowing is an important tool in ensuring the good governance of its own staff and that of its clients and counterparties. The Bank's present Codes of Conduct make it clear that:

- Bank staff and Board officials have an obligation to report suspected misconduct within the Bank and suspected fraud or corruption in relation to the Bank's projects
- retaliation against another by reason of his/her good faith compliance with this obligation (or because of his/her participation in the Bank's internal dispute resolution regime) may be regarded as misconduct and dealt with accordingly.

In 2014 the Bank began implementing an enhanced whistleblower protection regime. As part of the implementation process, the CDRP and EPP were amended.

Changes to the regime, which was updated in late 2013, include:

- the extension of whistleblower protection to experts performing missions for the Bank
- the introduction of alternate avenues for internal reporting of misconduct
- the introduction, subject to certain conditions, of protection for staff members who report misconduct to parties external to the Bank
- express permission for anonymous internal reporting of staff misconduct and prohibited practices in a project context
- the possibility for management to provide interim protection to a whistleblower.

In 2014, there were no claims of retaliatory acts for having reported suspected misconduct or a Prohibited Practice, or for having carried out any other protected activity, such as being interviewed as a witness or assisting the Internal Audit Department in the performance of its duties.

2.5 Integrity due diligence

The EBRD maintains a robust approach to Integrity Due Diligence (IDD) on prospective EBRD clients and projects, as summarised in last year's report. IDD includes (but is not limited to) risks and issues such as:

- ownership structure and the identity of ultimate beneficial owners
- origins of a company and the source of wealth of key figures
- business practices and associations with counterparties
- presence of Politically Exposed Persons (PEPs)
- quality of AML and CFT controls
- reliance on government-issued licences and permits
- use of offshore jurisdictions.

Primary responsibility for performing IDD rests with the relevant banking team and in particular with the Operation Leader assigned to the transaction. The Bank's Credit function plays a key role in the project approval process and is specifically charged with reviewing and documenting client-related integrity concerns and referring any significant concerns to OCCO's Transaction Advice team. The Transaction Advice team provides independent expert advice to management as to whether the potential risk is acceptable to the Bank. The Operations Committee, consisting of the vice-presidents responsible for Banking, Risk Management and Finance, the General Counsel and the Chief Economist (and assisted, where appropriate, by OCCO), decides on the acceptability of potential integrity risks in advance of submitting the project for Board approval.

Transaction Advice Case Study

The Bank was presented with an opportunity to finance a sophisticated, energy and cost efficient municipal infrastructure project in one of its countries of operations. Many aspects of the project were encouraging.

A well-structured tender had been conducted and a contractor was identified to build and maintain the system. There were no material concerns regarding the relevant municipality. However, the contractor set to implement the project was unknown to the EBRD and consequently, as required by its procedures, the Bank carried out extensive integrity due diligence of the contractor, including with the support of external advisers.

Findings in the media, corroborated by the external advisers, suggested that the contractor had been involved in corruption, involving bribes over a number of years, albeit in a country other than the one in which the project was to be delivered.

Nonetheless, the integrity concerns were such that the project could not proceed with the contractor in its originally proposed structure. The EBRD continues to seek a solution to enable the project to proceed.

Potential projects in any of the Bank's countries of operations may also be referred to OCCO's Transaction Advice team for guidance at the beginning of the project planning cycle. This can result in some projects being discontinued at a relatively early stage. In 2014, 455 potential projects were referred to the Transaction Advice team for guidance. While it is not possible to provide a precise number of projects that do not go forward due to integrity risks alone, typically there are 10-20 such cases each year. Other early-stage prospects and enquiries may be rejected by banking teams for integrity reasons without requiring OCCO's input.

In addition to integrity advice given at the pre-investment stage, OCCO's Transaction Advice team is also involved in providing advice and support during investment monitoring, as well as on equity exits.

Transaction Advice Case Study

Integrity due diligence for a road building project highlighted a number of issues relating to one of the shareholders of the project. The issues related to corrupt practices by the shareholder on projects unrelated to the EBRD, which resulted in sanctions by a Regulator, and subsequently by a development agency. Additionally, the relatively complex ownership structure, involving a number of jurisdictions, required further examination and justification.

Various mitigating factors were noted through the due diligence exercise. The offences were historical and the shareholder had pleaded guilty and entered into a conditional settlement agreement with the Regulator. The conditions of the agreement (i.e. improved anti-corruption policies, compliance systems and training for staff) were deemed by the Regulator to have been met by the shareholder.

The shareholder's improved anti-corruption policies, compliance systems and training were also independently audited. Finally, the relatively complex ownership structure was determined to be historic rather than designed to obfuscate. OCCO's Transaction Advice team evaluated the risk and then worked with the project team to develop mitigating measures and to ensure that the issues were appropriately disclosed in Board documents.

The project was ultimately approved.

In addition to assessing integrity risks associated with proposed transactions, on a quarterly basis, the Transaction Advice team reviews the information provided by the Banking Department for all projects that have passed final review by the Bank's Operations Committee to monitor compliance with the IDD procedures. These quarterly compliance reviews also include an evaluation of the adequacy of the disclosure of integrity issues in Board documents. All of the Board approved projects reviewed by OCCO in 2014 were found to have contained appropriate disclosure.

Additionally, 25 per cent of all projects that pass final review by the Bank's Operations Committee are selected for comprehensive assessment to confirm that checklist responses are indeed based on information obtained from supporting documents and/or other sources. Monitoring carried out in 2014 indicated that adequate assessment had been performed in all projects that were subject to this review. Where there are concerns, these are brought to the attention of the relevant Banking team and, where warranted, to the attention of EBRD's management.

2.6 Internal training

The EBRD provides new and existing staff members in its Headquarters and Resident Offices with a suite of compulsory and optional training programmes and resources on integrity, anti-corruption and related topics. The Bank's main internal training activities in 2014 in this area are summarised in the table below. They range from induction seminars on the Bank's Codes of Conduct to workshops on IDD. Training is also provided to Bank staff and consultants who are appointed to act as the EBRD's Nominee Directors (NDs) (see Section 2.7).

OCCO's Ethics and Policy team is directly involved in designing and delivering these courses in conjunction with external trainers and other relevant units within the Bank. Over the course of 2014, the Bank's integrity and anti-corruption training courses were delivered through more than 35 training sessions held in the EBRD's Headquarters and Resident Offices, involving the participation of several hundred new and existing Bank staff members. For context purposes, the Bank had 1,848 employees as at 31 December 2014 and had recruited 501 new members of staff during the reporting period. In addition to the delivery of formal training programmes, members of OCCO regularly participate in sector and country team retreats to reinforce messages identified in training.

Internal training on integrity and anti-corruption in 2014	Number of participants
<p>Integrity Matters! (Induction) This half-day induction training module on ethics, integrity and staff conduct is mandatory for all incoming staff. In 2014, this course was delivered by OCCO and an external trainer 15 times, staggered throughout the year. Three of these seminars were for new Board members (35 participants), and two were for the Small Business Advisory team (53 participants).</p>	311
<p>Integrity Due Diligence, AML and CFT (Induction) All new EBRD staff in project-facing functions must complete this mandatory training programme on the Bank's IDD guidelines and on international best practice and legal requirements relating to AML and CFT. The half-day course ensures that all project staff are aware of the ways in which money laundering and terrorist financing may confront the EBRD in its various projects, are familiar with the Bank's guidelines and are able to make decisions in line with them. The course is delivered by OCCO and an external trainer. In 2014, it was provided to new staff members from both Headquarters and Resident Offices, via 10 seminars. Two of these sessions were held for Small Business Support professionals. An online version of the course is also available via the Bank's intranet.</p>	169
<p>Integrity Due Diligence, AML and CFT (Refresher) A refresher version of the above course is mandatory for all EBRD project-facing staff who last received IDD/AML/CFT training more than three years ago. The half-day course is delivered by OCCO. During 2014, 11 seminars were held at the Bank's Headquarters.</p>	173
<p>Banking Academy This week-long residential course is provided for bankers who are about to become eligible to be Operation Leaders. The OCCO component is a half-day session focusing on integrity and ethics in relation to project proposals. The Banking Academy course was delivered four times in 2014.</p>	69
<p>Business Integrity Due Diligence The Business Integrity Due Diligence course assists project-facing staff to hone their questioning and intelligence-gathering skills, in order to obtain an accurate and comprehensive picture of the integrity status of a transaction as early as possible in the project cycle. Four seminars were held in 2014.</p>	38
<p>Training for Nominee Directors All Bank staff and external consultants appointed by the Bank to act as Nominee Directors (NDs) on its behalf are required to participate in this two-day training programme. Three training sessions were held during 2014 and were attended by 24 Bank staff and 15 consultants.</p>	39

2.7 Nominee Directors

The EBRD's direct equity investments often provide an opportunity for the Bank to nominate a member of the board of directors and thus positively influence the corporate governance affairs of the investee company. According to the rules and procedures relating to the appointment of EBRD NDs and depending on the circumstances of each project, the EBRD may designate a senior staff member to act as its ND or engage a suitably experienced and trusted external consultant to act as ND on the Bank's behalf.

As at 31 December 2014, the EBRD held 165 board seats, of which 89 were filled by Bank staff (69 individuals, of which 71 per cent are male and 29 per cent are female), and 76 by external consultants (62 individuals, of which 89 per cent are male and 11 per cent are female). During 2014, a total of 27 individuals (12 staff members and 15 external consultants) became EBRD NDs for the first time.

OCCO organises and actively participates in the Bank's training programme for NDs, focusing on issues such as corporate governance, the obligations and effectiveness of NDs, roles of different Board committees and the avoidance of conflicts of interest. Similarly, OCCO also participates in the training of staff members who represent the EBRD on the advisory and/or investment committees of the many private equity funds in which the EBRD invests.

2.8 Information barriers

The Bank's guidelines on Chinese walls (to be renamed "information barriers"), have been in effect since 2009. In addition to being covered in the EBRD's *Integrity Matters!* induction training, the guidelines are supported by an e-learning programme available to all staff. This explains the concept of information barriers, the need to protect confidentiality, and the procedures for requesting the creation of information barriers (most notably separating the debt and equity teams of a Bank client), as well as for authorisation to "go over the wall".

A review of the guidelines on information barriers and related training is due to take place in 2015.

3. Investigations and sanctions

3.1 Introduction

This chapter provides summary information on matters arising in 2014 that required investigation by OCCO's Investigations team and, where available, the outcomes of those cases. These concern allegations of staff misconduct and allegations of Prohibited Practices in relation to Bank projects.

3.2 Staff misconduct

In 2014, OCCO received 28 reports of suspected misconduct on the part of staff members. In addition, two other matters were carried forward from 2013. Of the total of 30 matters that were investigated in 2014, 29 were completed and one was still under investigation at the end of the year.

Complaints of staff misconduct are generally investigated in accordance with the Bank's Conduct and Disciplinary Rules and Procedures (CDRP). Further action, such as referral to law enforcement agencies, may be taken on a case-by-case basis, as appropriate.

Of the 30 matters investigated in 2014, 18 were closed following preliminary assessment on the grounds that the information reported to OCCO was not reliable and/or serious. The other 12 complaints proceeded to formal investigation. The disposition of these, as at 31 December 2014, is outlined below.

- One case involved allegations that a staff member had engaged in widespread harassment and bullying of colleagues. Following an OCCO investigation, the staff member was charged with misconduct and, at the end of 2014, the disciplinary process was still ongoing.
- One case involved allegations of a conflict of interests as a result of the staff member awarding multiple Bank contracts to two companies owned by the staff member's son. The staff member resigned (as permitted by the CDRP) following the investigation.
- One case involved allegations that a staff member had wrongfully used confidential EBRD information in an attempt to gain financial advantage. The staff member resigned from the Bank prior to the investigation being completed.
- One case involved an allegation into the misuse of a Bank-issued corporate credit card and insubordination. Following a formal investigation, this resulted in a recommendation of disciplinary action and the staff member subsequently received a formal warning regarding this conduct.
- Four cases involving allegations that staff members had engaged in workplace bullying and harassment. Following formal investigations, these resulted in the issuance of oral warnings and reprimands to each of the four responsible staff members.
- Two cases alleging insubordination by two staff members and a further case alleging that another staff member had engaged in workplace bullying and harassment were closed following formal investigations on the grounds that the allegations against the three staff members could not be substantiated to the required standard.
- The final matter involved an allegation that a staff member had made a fraudulent claim for benefits and, as at year end, the investigation is continuing.

In addition to the above matters investigated under the CDRP, OCCO's Investigations team continued to assist law enforcement authorities in the United Kingdom and the European Anti-Fraud Office (OLAF), in relation to three investigations, two involving former staff members and the other involving the alleged misappropriation of Bank funds:

- The first matter was referred to OLAF and stems from a 2013 OCCO investigation into a staff member who had been involved in a serious and irreconcilable conflict of interest. The staff member resigned prior to OCCO's Investigations team issuing its investigation report but because of the fact that EU funds were involved, the matter was forwarded to OLAF for its review and, as at year end, that investigation is still ongoing.
- The second matter stems from an OCCO inquiry into the fraudulent withdrawal of funds by third parties from a former staff member's Money Purchase Plan, administered by the Bank. The matter was subsequently referred to the UK police and the trial against the offenders is scheduled to proceed in June 2015.
- The third matter involves a referral the Bank made to the City of London Police in 2010 and concerns allegations that a former Bank staff member received large corrupt payments from Bank clients as a reward for assisting them in obtaining Bank funding. In 2014, US and UK law enforcement officials requested OCCO's assistance to produce relevant Bank material and arrange for Bank personnel to provide evidence. This matter is scheduled for a six-week trial beginning in September 2015.

3.1 Bank projects

3.1.1 Complaints carried forward from 2013

In 2014, OCCO carried forward three complaints from the 2013 period out of the 27 complaints received that year:

- The first concerned allegations that the former chief executive officer (CEO) of an EBRD borrower paid a bribe of US\$ 200,000 to a now-former EBRD Board Director, in order to obtain her favourable endorsement of his company's loan application when it was presented to the EBRD's Board for approval. The investigation established that two weeks before his company's loan application was to be considered by the EBRD Board, the CEO signed a wire transfer instructing the bribe to be wired from a Monaco bank account to a Swiss bank account controlled by the now-former EBRD Director, purportedly for the "purchase of fine art". The CEO was the subject of an investigation by the City of London Police of the United Kingdom and was sentenced to a one-year term of imprisonment in the United Kingdom. Separately, based on the seriousness of the misconduct, as well as the lack of co-operation and acceptance of responsibility, the EBRD debarred the CEO for a period of five years. This sanction was also enforced by the other four Multilateral Development Banks that are signatories to the Agreement for the Mutual Enforcement of Debarment Decisions.
- The second case involved allegations of corruption in a public sector tender exercise. A related investigation by the relevant national authorities was successfully completed during 2013. OCCO's Investigations team finished its investigation in 2014 and the matter is expected to be referred to the Bank's Enforcement Committee in early 2015.
- The third matter carried over from 2013 involves allegations of corruption in the award of a large public sector contract. This matter is being investigated by national investigators from the United Kingdom and Lithuania who have requested OCCO's assistance to produce relevant Bank material and arrange for Bank personnel to provide evidence. In 2014, criminal charges were brought against a United Kingdom entity and two of its former employees. OCCO's Investigations team's separate investigation into the alleged corrupt practice is expected to be completed in 2015.

3.1.2 New complaints received during 2014

OCCO received 33 complaints during 2014 alleging the occurrence of a Prohibited Practice in either the EBRD's public sector procurement or private sector operations. In 24 cases, the matter did not proceed beyond preliminary assessment; in three of the 24 cases, it was determined that it would be more appropriate for the suspected prohibited practice(s) to be investigated by other investigative offices – one by the Serious Fraud Office in the United Kingdom, one by European Unit Anti-Fraud Office (OLAF) and one by the European Investment Bank (EIB).

Ultimately, there were nine matters subject to further investigation under the Bank's EPP in 2014. Details of those matters are outlined below.

- OCCO's Investigations team was informed by the United States Department of Justice (DoJ) that the Ukrainian subsidiary of an international agricultural conglomerate had pleaded guilty before a US court and agreed to pay over US\$ 17 million to the DoJ to resolve criminal charges that the subsidiary had paid bribes to Ukrainian government officials, in order to receive more than US\$ 100 million in tax refunds. The Investigations team's analysis determined that it was probable that EBRD funds were associated with these illicit payments. Following review of the DoJ investigation and related settlements, EBRD debarred the subsidiary for a period of three years.
- OCCO's Investigations team completed an investigation into allegations that two Tajik companies, co-recipients of an EBRD loan and their General Manager engaged in a Prohibited Practice by misrepresenting that a warehouse was owned by one of the companies when it was not, in order to obtain a loan from EBRD by using the warehouse as security. OCCO referred the matter to the Bank's Enforcement Committee. However, the Enforcement Committee determined that it lacked jurisdiction to consider the matter and OCCO subsequently closed its investigation file.
- An investigation was conducted into allegations that a Bank consultant submitted fraudulent claims for expenses and resulted in the Bank terminating the contract with the consultant.
- An investigation was commenced into allegations that six tenderers colluded in the preparation /submission of tender documents in relation to a procurement in Tajikistan. It is expected that the investigation will be concluded in early 2015.
- In five other matters, involving misrepresentations by either the project sponsor and /or bidding consultant and/ or diversion of Bank funds for an unauthorised purpose arising in the Bank's private sector transactions, the investigations are almost complete and are expected to be submitted to the Bank's Enforcement Committee in 2015.

3.1.3 Cross-debarments

Following the entry into force of the Agreement for Mutual Enforcement of the Debarment Decisions amongst the Bank, the African Development Bank Group, the Asian Development Bank (the ADB), the Inter-American Development Bank Group (IDB) and the World Bank Group (WBG) (available at <http://www.ebrd.com/downloads/integrity/Debar.pdf>), in 2014 the Bank cross debarred 54 entities and 33 individuals based on a total number of 48 debarment notices received from the WBG, IDB and the ADB.

The list of all EBRD debarred entities and individuals can be found at <http://www.ebrd.com/ineligible-entities.html>

 EBRD list of ineligible entities
www.ebrd.com/pages/about/integrity/list.shtml

4. Policy dialogue and technical cooperation

4.1 Introduction

As part of the EBRD's approach to preventing corruption and dealing with AML/CFT across the whole range of its activities, the Bank engages in policy dialogue with, and provides technical assistance to, policy-makers and businesses in the Bank's region. Such dialogue and assistance seeks to strengthen legal and economic institutions and promote good corporate governance and sound business environments.

4.2 Investment climate and good governance

Poor corporate and public governance are serious obstacles to transition in many countries where the Bank invests. Surveys of enterprises conducted by the EBRD and other organisations show clearly the impact of weak governance and a poor investment climate on business decisions; on starting, operating and expanding businesses; and on foreign investment. The less advanced EBRD countries of operations traditionally rank at the bottom of global league tables on business environment, which affects investor perceptions and stymies growth.

In 2014, the Bank launched the [Investment Climate and Governance Initiative \(ICGI\)](#) to address, among other things, the problem of corruption and its impact on business. The ICGI approach combines existing tools and instruments – such as platforms for public-private dialogue, dispute resolution, reform of procurement systems, judicial capacity-building and corporate governance enhancements – with new instruments addressing issues such as business regulation, licensing and customs administration, transparency, freedom of information and business registration. The ICGI functions in a multi-stakeholder framework involving other IFIs, intergovernmental organisations, and domestic and international NGOs specialised in this field.

ICGI country programmes may be developed only in those countries where there is strong demand for EBRD engagement, demonstrable political will to introduce reforms that can improve the investment climate and governance, and a clear role for the EBRD to add value to reform of the investment climate. In 2014, ICGI country programmes were developed for Albania, Moldova and Serbia. The specific interventions for each country – enshrined in memoranda of understanding signed by the EBRD and prime ministers – were designed to build on the Bank's ongoing policy dialogue and technical cooperation work in the area of investment climate while also providing new, concrete reform initiatives.

In May 2014, the Bank also signed an [Anti-Corruption Initiative](#) with the government of Ukraine to ensure greater accountability and transparency and a more effective rule of law within the Ukrainian economy. The Initiative focuses on establishing an independent business ombudsman institution to help address the problem of unfair treatment of businesses.

4.3 Legal Transition Programme

Through its [Legal Transition Programme \(LTP\)](#), the EBRD aims to improve the investment climate in the countries where the Bank invests by helping to create a transparent and predictable legal environment conducive to the functioning of vibrant, market-oriented economies. The LTP is promoted by EBRD's Office of the General Counsel and its activities range from assisting governments with the drafting of new legislation to designing new institutions (for example, pledge registries) and training public officials.

The LTP provides an important policy dialogue and technical cooperation platform for strengthening judicial systems, thus helping to build up defences against corruption. The Bank's efforts include work to improve the efficiency of court systems by organising training programmes for judges. In 2014, the LTP trained roughly 900 judges in nine countries (Bulgaria, Croatia, Kosovo, FYR Macedonia, Moldova, Mongolia, Montenegro, Serbia and Tajikistan), in subjects including commercial law and insolvency accounting. Some of these judges were trained in multiple subjects (e.g. 200 judges in Tajikistan trained in four subjects, 200 judges in Mongolia trained in five subjects).

A critical bottleneck to investment in the region is the difficulty businesses have in enforcing contracts through judicial channels. The Bank continued its efforts to improve the enforcement of court decisions in its region. It also analysed the enforcement regime in nine countries in the Western Balkans and produced research data that will be disseminated in 2015.

Transparent public spending remains at the top of the EBRD's LTP agenda for improving the investment climate. In 2014, a new public procurement law was adopted in the Kyrgyz Republic under an initiative led by the United Nations Commission on International Trade Law (UNCITRAL). The Bank helped Armenia to prepare a new road map for public procurement reform. In November, Montenegro acceded to the WTO Government Procurement Agreement after benefiting from LTP assistance under the GPA Technical Cooperation Facility.

The LTP assisted the Mongolian authorities in the implementation of the [Extractive Industries Transparency Initiative \(EITI\)](#), a global standard that aims to encourage transparent financial practices in the mining sector. As part of the implementation process, 2014 saw the launch of a pilot e-Reporting system, an online facility for reporting government revenue from the mining sector that makes public scrutiny of this revenue easier. The EITI international secretariat is considering using the Mongolian pilot scheme as a model for EITI member countries globally.

4.4 External AML/CFT training

The EBRD regularly offers AML/CFT training workshops to financial actors using donor funds. Six workshops were delivered in 2014 in Armenia, Bosnia and Herzegovina, Egypt, Jordan, Kazakhstan and Morocco and were attended by a total of around 240 delegates. The workshops in SEMED countries were funded by the EBRD Shareholder Special Fund. The remaining workshops were offered through a three-year technical cooperation programme launched in 2011 using donor funds generously provided by Luxembourg.

The training programme has an emphasis on AML/CFT effectiveness and the implications of new sanctions measures. The need is particularly acute as the OECD, the Financial Action Task Force (FATF), the Council of Europe-MONEYVAL, the UN, G20 and sovereign states turn their attention from the strengthening of AML/CFT laws and regulations to their effective implementation, thereby demanding more of the public and private sectors. New legislation relating to international sanctions makes compliance increasingly challenging.

The overall aim of the seminars is to target key personnel from financial institutions and to help attendees to better understand the new focus, their obligations and how to be effective with constrained resources.

The training provides participating organisations with an opportunity to enhance their understanding and capacity, and to share their experiences in dealing with both international and national risk issues.

A further benefit of the seminars is the opportunity to build an informal network of relevant professionals from the private and public sectors, thereby enhancing cooperation. The course content is tailored to each country in order to increase awareness of its national and regional AML/CFT systems. The seminars include presentations and case studies delivered by local and international experts, and typically involve the participation of the relevant national regulatory authorities as well as delegates from the financial monitoring and compliance departments of local commercial banks.

The Bank plans to enhance its external AML/CFT training in 2015 by complementing its training workshops with consultancy engagements. These will see consultants carry out short-term missions within selected banks and provide targeted feedback on their AML/CFT preparedness. Luxembourg has generously agreed to provide funding for this consultancy work for at least the first year.

4.5 Economic research and analysis

The EBRD's Office of the Chief Economist (OCE) works with Banking and other departments in designing, appraising and monitoring projects, and provides a substantive input into country and sector strategies. OCE also initiates and participates in policy initiatives and dialogue and shapes the debate about transition and development through its publications, including the Bank's annual *Transition Report*.

The EBRD's *Transition Report 2014: Innovation in Transition*, asks the question: Why do certain firms in the region innovate and grow while others become stuck in terms of their development? The Report identifies pervasive corruption as one of the key constraints in the business environment from which innovative firms suffer disproportionately. Other major constraints affecting this type of business include shortages of skilled labour, excessive customs and trade regulations and a lack of access to finance.

The Report argues that efforts to improve the transition potential of firms and economies in the EBRD region should primarily target reductions in corruption, greater openness to international trade and cross-border investment and improvements in the skills of the workforce. The *Transition Report* notes that the reform process in the Bank's region of operations, which began slowing down before the onset of the global financial crisis, continued to stall in 2014. But it also found that there has been no wholesale reversal of previous reforms.

The fifth round of the Business Environment and Enterprise Performance Survey (BEEPS V) – a joint EBRD and World Bank project based on face-to-face interviews with managers of individual firms – was completed in an additional 29 transition countries in 2014. It was completed in Russia the previous year. The data and associated report on sampling and implementation were published on the EBRD BEEPS website in December 2014. The Middle East and North Africa (MENA) Enterprise Survey (ES) in SEMED (a joint project with the World Bank and the European Investment Bank) was completed in Jordan (it will be completed in Egypt, Morocco and Tunisia in 2015).

OCE used the BEEPS V and MENA ES Jordan data in the *Transition Report*, in a report on Tajikistan's Business Environment (prepared for and presented at the Business and Economic Forum in Dushanbe in October 2014) and in a presentation at an event organised by the World Bank in the Kyrgyz Republic in April that year. BEEPS V data was also used to provide information on business environment obstacles in ETC countries.

 Economic research and data
www.ebrd.com/what-we-do/economic-research-and-data.html

 Transition Report 2014: Innovation in Transition
www.tr.ebrd.com/tr14

 Business Environment and Enterprise Performance Survey (BEEPS)
www.ebrd-beeps.com

5. International cooperation

5.1 Introduction

OCCO is actively engaged in international cooperation on integrity and anti-corruption issues in order to:

- keep abreast and support the efforts of relevant international organisations
- participate in the development and dissemination of best practice
- work effectively with other Multilateral Development Banks (MDBs) in the common fight against corruption in emerging and transition economies.

Key activities during 2014 are summarised below.

5.2 Inter-governmental initiatives

OCCO continued to engage with key intergovernmental initiatives during 2014, including the Financial Action Task Force (FATF), MONEYVAL (the AML compliance body of the Council of Europe), the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG) and the OECD-hosted Global Forum on Tax Transparency (the Global Forum). A representative of OCCO regularly attended the meetings of these bodies. In addition, in order to complement its membership in FATF and ensure coverage of all its countries of operations, the Bank has applied for observer status in the Middle East and North Africa Financial Action Task Force (MENAFATF) and a decision on this matter is expected in 2015.

The Bank's engagement with FATF and associated bodies is critical to the EBRD's assessment of risk in the regions monitored by these organisations. Where the FATF has identified a jurisdiction as having strategic AML/CFT deficiencies, the Bank undertakes enhanced due diligence on all proposed counterparties within this jurisdiction, in order for it to be satisfied that these counterparties have appropriate AML/CFT procedures and are not engaging in terrorist financing.

In addition, OCCO attended the 3rd Biennial Meeting of the World Bank Group's International Corruption Hunters Alliance (ICHA) held in Washington, D.C. between 8-10 December 2014. The ICHA meeting brought together heads and senior officials of corruption investigating bodies and prosecuting authorities, anti-corruption experts, academics and representatives of international organisations from over 130 countries. The discussion of the 2014 meeting focused on fighting corruption and the vast illicit outflows generated by corruption, by sharing know-how and experiences in the use of both traditional and alternative corruption fighting approaches.

5.3 MDB cooperation

The OCCO maintains close bilateral and multilateral relationships in the field of anti-corruption with other MDBs. Alongside the IMF, the World Bank, the EIB and the African, Asian and Inter-American Development Banks, the OCCO is an active participant in the Joint IFI Anti-Corruption Task Force. This Task Force was

established in 2006 initially to agree harmonised prohibited practices and has since evolved to be an active forum encouraging consistency amongst the MDBs in the investigation and enforcement of Prohibited Practices, including the AMEDD to which the Bank is a signatory, and to collectively raise awareness of the MDB anti-corruption efforts.

As part of the ongoing activities of the Task Force, representatives of OCCO met and communicated regularly with the integrity offices of the MDBs throughout 2014 and, with specific regard to the effective implementation of the AMEDD, reached agreement on:

- the process to be applied when an entity fulfils the conditions for release from debarment
- the requirement to insert summary case details into each institution's Notice of a Debarment Decision, and to include a statement on whether the decision was based on a Negotiated Resolution Agreement
- a harmonised approach for dealing with sanctioned entities which are not direct counterparties of the institution(s) but which may receive funds from them, such as a contractor providing services to a private sector client.

In addition, the integrity offices of the MDBs, including OCCO, continued to work on several other topics of common interest, including:

- whether and when integrity offices should be subject to external peer reviews
- how integrity offices should respond to instances of national transgressions by strategically important counterparties, suppliers or contractors
- settlement agreements
- sharing of information among MDBs and with other international organisations
- whistleblower protection
- audit clauses
- the referral of matters to national enforcement authorities.

These matters will continue to be discussed with the aim of the MDBs agreeing on a 'best practice' approach regarding some of these issues. Further information is available at www.crossdebarment.org.

MDB meetings attended by representatives of OCCO included the annual MDB conference on Private Sector Integrity which, in 2014, was hosted by the Asian Development Bank in Manila. The aim of this conference was to coordinate and strengthen the integrity due diligence processes adopted by international organisations in their private sector operations. The event confirmed the leading role played by the EBRD in conducting integrity due diligence in its private sector operations.

Representatives of OCCO also attended a meeting of MDB chief investigators at OLAF's annual Conference of International Investigators held in October 2014, which drew 130 investigators from 40 international agencies, as well as an inaugural gathering of IFI and international bodies at the EIB's headquarters in Luxembourg to explore matters of mutual interest in relation to integrity.

In addition, the OCCO participated at the Meeting of Integrity Heads of MDBs held 4-5 December 2014 at the World Bank headquarters in Washington, D.C.. Amongst the various topics discussed were:

- Recent decisions of the sanctions boards of the MDBs
- Expansion of Prohibited Practices to include misappropriation
- Application of recent Office of Foreign Assets Control (OFAC) and UN Sanctions
- Cooperation by entities subject to settlement agreements with the investigations of other MDBs.

5.4 Other international cooperation activities

As in previous years, the EBRD helps to support the work of standard setters by working closely with governments, civil society representatives and the private sector. In 2014, OCCO continued to participate in the Steering Committee for Transparency International's (TI) Business Principles for Countering Bribery and attended the inaugural event of TI's country assessment methodology development programme. An OCCO representative sits on the programme's advisory board to help steer its output.

The Bank also maintains contacts with other organisations, such as the OECD, to underscore the importance of anti-corruption reforms in the Bank's countries of operations. In addition, OCCO participates in the work of the B20 Coalition of business associations from G20 economies, which counts the fight against corruption and bribery within the private sector among its priorities; and the Cambridge International Symposium on Economic Crime and of the Wolfsberg Forum – a gathering of international regulators and Financial Institutions - organised by the Wolfsberg Group. The Wolfsberg Group was formed by 11 global banks, and aims to develop and promote industry standards and good practice for anti-money laundering and the countering of terrorist financing.

6. Outlook for 2015

The EBRD's integrity and anti-corruption initiatives and activities during 2015 will continue to focus on the activities summarised in this report. Priorities will include:

- enhanced transaction advisory support by OCCO to relevant banking teams and country offices
- creation of a capital markets compliance function within OCCO
- completion of substantive reviews of the CDRP and EPP
- a review of the guidelines on information barriers and related training
- integrity and anti-corruption training for EBRD staff members
- processing of allegations of misconduct and/or prohibited practices
- processing of cross-debarments
- technical cooperation and economic research
- international cooperation with other organisations and initiatives.