

Anti-corruption Report – 2011

For the year ending 31 December 2011



European Bank
for Reconstruction and Development

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MESSAGE FROM THE PRESIDENT

The European Bank for Reconstruction and Development (EBRD) fosters transition to market economies in countries in central and eastern Europe and central Asia. The 2011 increase in the Bank's capital to support these activities over the next four years is an acknowledgement of the Bank's accomplishments to date. These resources have enabled the Bank to broaden its response to the global financial crisis. They will also allow the Bank to expand its geographic focus into the southern and eastern Mediterranean region to support transition in that region.



One key challenge to economic growth and development continues to be corruption. It has to be addressed in order to reinforce the efforts of the Bank and other international institutions to confront the current crisis and to improve the prospects for a long term, sustainable growth.

In order for the Bank to effectively carry out the responsibilities placed on it by its shareholders, it remains strongly committed to ensuring that effective anti-corruption initiatives are in place to support its mandate. Its multifaceted anti-corruption strategy, which continues to encompass the four pillars of prevention, detection, investigation and sanctioning, with a particular focus on *ex ante* measures, is at the forefront of responsible business practices.

A significant tool in this effort is the Bank's participation in a coordinated mechanism that debars parties that have engaged in fraud and corrupt practices from doing business with the Bank and certain of the other multilateral development banks. This mechanism is embodied in the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD), which was concluded among the EBRD, the World Bank and the African, Asian and Inter-American Development Banks in April 2010. The AMEDD provides the framework for these institutions to mutually enforce each other's debarment actions with respect to four harmonised sanctionable practices, that is, corruption, fraud, coercion and collusion. Cross debarment holds entities and individuals engaged in fraud or corruption in international financial institution (IFI)-financed projects responsible for their actions and, possibly, deters others from engaging in similar wrongdoing. While the details of harmonising and implementing cross debarment continue to be refined by the participating institutions, the AMEDD represents a major milestone in a united effort to curtail corruption and promote good governance and transparency.

In parallel to the AMEDD, the Bank continues to apply and enhance other initiatives to proactively prevent wrongdoing, to conduct investigations of alleged impropriety and to take appropriate measures including corrective action. This sixth annual Anti-corruption Report highlights the Bank's efforts in 2011.

Thomas Mirow
President

ABBREVIATIONS

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
CDRPs: Conduct and Disciplinary Rules and Procedures
CFT: Countering the financing of terrorism
DPs: Disciplinary Procedures
EAG: Eurasian Group on Combating Money Laundering and Terrorist Financing
EBRD: European Bank for Reconstruction and Development
EIB: European Investment Bank
EPPs: Enforcement Policy and Procedures
IDD: Integrity due diligence
IFI: International financial institution
IMF: International Monetary Fund
IRM: Independent Recourse Mechanism
LiTS: Life in Transition Survey
LTP: Legal Transition Programme
MDBs: Multilateral development banks
ND: Nominee Director
OCCO: Office of the Chief Compliance Officer
PCM: Project Complaint Mechanism
PP&Rs: Procurement Policies and Rules
PRISM: Procedures for Reporting and Investigating Suspected Misconduct
SEMED: Southern and eastern Mediterranean

ABOUT THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The European Bank for Reconstruction and Development (EBRD), which is owned by 63 countries and two intergovernmental institutions, the European Union and the European Investment Bank (EIB), was founded in 1991 to aid the development of democratic market economies in the former Soviet states of central and eastern Europe and Central Asia (the “region”). Its mandate is to facilitate the transition from centrally planned to market economies in the region. The Bank has also initiated activities to support development in the countries of the southern and eastern Mediterranean (SEMED) region, as part of the extension of its mandate of building well-functioning market economies in SEMED countries that are committed to the principles of multi-party democracy and pluralism.

The EBRD is the largest single investor in the region and mobilises significant direct foreign investment beyond its own financing. It invests in a wide range of enterprises and financial institutions, generally through loans or equity. The EBRD also provides targeted technical assistance and as well as providing support through business development programmes that help to promote new skills in region.. The Bank maintains a close relationship with both governments and civil society in the region in order to promote policies that will bolster the business environment.

The Bank works in countries committed to the principles of multi-party democracy, pluralism and market economics. . The EBRD has also developed internal and external mechanisms to ensure that its mandate is carried out to the highest standards of corporate governance and integrity.

Every EBRD investment must:

- contribute significantly to a country’s transition to a market economy
- take risks that support private investors and do not crowd them out
- apply sound banking principles.

Through its investments, the EBRD promotes:

- structural and sectoral reforms
- competition, privatisation and entrepreneurship
- stronger financial institutions and legal systems
- infrastructure development needed to support the private sector
- the adoption of strong corporate governance, including environmental sustainability and higher standards of business conduct.

Functioning as a catalyst of change, the EBRD:

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

More information about the Bank can be found on its web site at www.ebrd.com.

1. Introduction

This report summarises work undertaken by the Bank during the year 2011 with respect to its anti-corruption policies and procedures, as well as providing updated information on its ongoing anti-corruption activities (such as the provision of anti-money laundering, counter-terrorist financing, and integrity workshops and seminars).

The Bank's efforts to combat corruption continually evolve and produce new initiatives in response to changes in its operating environment. This report highlights such developments during 2011 and describes changes to ongoing integrity and anti-corruption activities.

This report is organised around the four pillars of the Bank's anti-corruption strategy: prevention, detection, investigation and enforcement. Responsibility for implementing and reporting on the strategy falls primarily on the Office of the Chief Compliance Officer (OCCO).

2. The Office of the Chief Compliance Officer

The Bank – its officers and staff together – seeks to ensure that the highest standards of integrity are applied throughout the EBRD and its projects. The mission of OCCO 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, including developing, reviewing and enforcing the relevant Bank policies and practices. In keeping with OCCO's independence from all operational departments, all of its staff report to the Chief Compliance Officer (CCO), who reports functionally and administratively to the President and has full and free access to the Chair of the Audit Committee.

OCCO consolidates four main areas of responsibility in: (i) providing a range of advice and assistance across Bank departments in identifying, assessing and monitoring integrity and reputational risks relating to proposed and ongoing Bank transactions; (ii) conducting investigations into allegations of fraudulent and corrupt practices in relation to Bank projects or counterparties as well as allegations of misconduct on the part of Bank staff; (iii) providing Bank-wide training courses in relation to ethics and integrity; and (iv) administering the Bank's accountability mechanism. These activities are intended to support the following objectives to ensure that:

- the Bank's ethical rules of conduct and internal standards, including procedures and guidelines on anti-money laundering (AML), countering the financing of terrorism (CFT), conflicts of interest, treatment of confidential information and integrity due diligence (IDD), are in line with and reflect sound business practices
- Board officials and Bank staff behave in an ethical manner, consistent with their obligations under the relevant code of conduct, and that they are adequately trained to understand and fulfill these obligations
- allegations of fraudulent or corrupt practices are processed in compliance with

the Bank's Enforcement Policy and Procedures (EPPs), and that those in relation to misconduct are processed in compliance with the relevant provisions of the applicable code of conduct or the Bank's Conduct and Disciplinary Rules and Procedures (CDRPs).

In addition, the CCO is responsible for ensuring that the Project Complaint Mechanism (PCM) Officer carries out the PCM functions and administrative responsibilities as set out in the PCM Rules of Procedure. Similar to its predecessor, the Independent Recourse Mechanism (IRM), the PCM reviews complaints from individuals or groups adversely affected by Bank-financed projects that the Bank has failed to adhere to its applicable policies in approving a particular project as well as affords members of an affected community the opportunity of obtaining the Bank's assistance in a problem-solving initiative with the project sponsor. In contrast to the IRM, the current mechanism includes features that make it more accessible to individuals and groups affected by Bank projects, strengthen the Bank's ability to monitor clients' commitments to relevant Bank policies, and provide more opportunities for consultations with all relevant parties, as well as publication of monitoring reports.

In order to enhance the Bank's efforts to combat fraud and corruption in its operations and ensure that its staff adheres to the highest standards of integrity, a second Deputy Compliance Officer position was added to OCCO in 2011 to meet the increasing workload in the area of investigations and related activities, including the implementation of the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD). Another position was added to enhance OCCO's capacity to provide transaction advice as well as to manage integrity issues that may arise in the Bank's new region of operations in the future. Further information regarding OCCO's activities can be found below.

3. Key 2011 initiatives

Conduct and Disciplinary Rules and Procedures (CDRPs). In order that the Bank's staff adheres to the highest ethical standards, the Bank has established procedures for investigating allegations of misconduct and imposing disciplinary measures where the misconduct is proven. In 2011 the CDRPs were formally adopted, replacing the previous investigative and disciplinary procedures. Several amendments were also made to the Bank's Grievance Procedures to ensure their proper interface with the CDRPs.

Comprehensive Review of the Codes of Conduct. A comprehensive review of both the Code of Conduct for Officials of the Board of Directors and the Code of Conduct for Bank Personnel, both of which have been in force since May 2006, was conducted in 2011. A process of benchmarking was undertaken to ensure that the ethical conduct expected of the Bank's personnel and Board officials as articulated in the Codes represents the highest standards in light of accepted international standards and norms, and that the Codes reflect the Bank's commitment to the principles of transparency, predictability and accountability. As a result of this review in 2011, revised versions of both codes were approved by the Governors on 29 February 2012 and are now in force.

Project Complaint Mechanism. In 2011 the PCM, which had been launched in early 2010 to replace the IRM, saw completion of its first PCM compliance review, which concerned the D1 Motorway Project in the Slovak Republic. The PCM registered six new complaints in 2011.

4. Preventing corruption

While each of the four pillars of the Bank's anti-corruption strategy – prevention, detection, investigation and sanctioning – is equally important, the Bank has consistently relied on its robust pre-investment screening as the best way of safeguarding the integrity of its operations.

4.1. Internal prevention

This section focuses on how the Bank shields its own operations from corruption.

4.1.1. Integrity due diligence

As a major investor in enterprises and financial institutions based in or operating out of its countries of operations, the Bank seeks to promote high ethical standards, integrity, and good business practices as a key transition component in its work. Failure to recognise and address integrity risks associated with the Bank's investment activities can, in addition to financial loss, result in reputation risk, which can, in turn, damage the Bank's name and standing. For this reason, the Bank strives to ensure that integrity risks are identified and managed in a timely manner.

Accordingly, the Bank has developed integrity due diligence (IDD) procedures and guidelines, which are intended to facilitate the assessment of potential risks associated with a particular client or sponsor, while providing clear guidance as to what is not acceptable. The procedures rely on a risk-based approach whereby higher risks are subjected to increased levels of scrutiny and control. All Bank transactions are subject to a stringent *ex ante* IDD review, the process by which bankers assess – in line with the IDD procedures and guidelines – potential reputational and integrity concerns that may be associated with dealing with particular clients or sponsors.

As noted in previous Reports, the Bank adopted a Policy on Offshore Jurisdictions in EBRD-financed projects in July 2010. A key feature of the policy is that it places reliance on the assessment of jurisdictions by expert bodies, notably the Global Forum on Transparency and Tax Information and the Financial Action Task Force (FATF), in recognition of the fact that these assessments have full credibility and international support. The 2010 policy is consistent with the practice of the Bank prior to 2009.

In 2011, further to the recommendations made by an internal Bank working group on the impact of corrupt practices on Bank operations, the IDD guidelines and procedures were reinforced to address concerns relating to the Bank's engagement of consultants and agents. A further integrity control to better monitor integrity concerns

arising after project approval was also introduced in the course of the year. This control consists of entering the names of key projects/clients/sponsors in a database which is then scanned on a daily basis against a watch list reflecting media reports and sanctions data. Information giving rise to concern is referred to the relevant operations leader and Banking team for further assessment and appropriate action.

OCCO provides advice concerning application of the Bank's IDD guidelines and procedures throughout a project's lifecycle, including the pre-investment stage, during investment monitoring and on equity exits. During 2011 OCCO provided integrity advice on approximately 240 projects. In this regard, higher risk projects are automatically referred to OCCO under the Bank's IDD guidelines.

It is also worth noting that, of the projects referred to OCCO for vetting, approximately 20 proposed projects did not proceed purely due to integrity concerns. These concerns generally relate to opaque ownership structures that do not permit identification of the ultimate beneficial owner, the presence of unacceptable "politically exposed persons", abuse of judicial procedures to obtain commercial advantage, ongoing criminal investigations or criminal convictions as well as credible allegations of serious past wrongdoings.

In addition to assessing risks associated with proposed transactions, OCCO monitors compliance with the requirement for bankers to complete integrity and, where appropriate, AML red flag checklists. OCCO's compliance assessments covered all transactions that passed final review by Bank Management during 2011. The overall compliance rate for completion of the integrity checklists was 99 per cent in respect of the red flags checklist and 97 per cent for the AML/CFT checklist. The reason for the non-filing of checklists was ascertained and remedial action was taken to ensure full compliance in future. In addition, 25 per cent of the projects underwent a comprehensive verification against relevant documentation. These reviews confirmed that the checklist responses were indeed based on information obtained from supporting documents and/or other sources.

Beginning in 2010, following recommendations made in the 2008 Internal Audit Report on Banking Operations: IDD, the quarterly compliance reviews included an evaluation of the adequacy of the disclosure of integrity issues in Board documents. In 2011, OCCO reviewed approximately 25 per cent of the projects submitted for the consideration of the Board of Directors, all of which were found to have made adequate disclosure.

4.1.2. Anti-money laundering, combating terrorist financing and integrity due diligence training

While OCCO provides case-by-case IDD transaction advice to Bank staff, it also ensures that all project-facing staff are trained to identify and analyse integrity issues in their respective projects. All project-facing staff are required to attend, as part of their induction programme, a half-day course covering international best practice in AML, CFT and the Bank's IDD guidelines. This training ensures that all project staff understand international best practice and legal requirements relating to AML and CFT, are aware of the ways in which money laundering and terrorist financing may confront the Bank in its various projects, are familiar with the Bank's IDD guidelines

and make decisions in line with them.

In 2011, seven AML/CFT/IDD training sessions were held at the Bank's Headquarters, involving the participation of 100 new staff members from both Headquarters and the Bank's Resident Offices. OCCO has also developed an online version of IDD training so that staff may still receive training in the event they are unable to participate in person.

In addition to the training offered to new staff, in 2010 the Bank developed a new mandatory refresher AML/CFT/IDD half-day training course designed for experienced bankers. The course is intended to highlight best practice in information gathering as well as recent developments in the fields of integrity, AML and corruption and to encourage participants to share experiences and lessons learned. Nine sessions of the course were held in 2011, which were attended by 90 staff members. A separate non-mandatory Business Intelligence Due Diligence (BIDD) half-day course, developed during 2010, continued to be offered in 2011. This programme is intended to assist project-facing staff in honing their questioning and intelligence-gathering skills in order to obtain as accurate and comprehensive a picture as possible of the integrity status of transactions prior to their formal approval. A total of 32 professional staff attended five sessions of this course held during 2011.

4.1.3. Promoting ethical standards

To ensure awareness of ethical standards and related responsibilities under the Board and staff Codes of Conduct, OCCO offers a range of training courses on integrity-related issues. The "Integrity Matters!" course is compulsory for all incoming staff. In this context, OCCO hosted seven Integrity Matters! sessions during 2011 which were attended by 215 staff members and Board officials.

The electronic training programme on the "Chinese wall" guidelines introduced in December 2009 was extensively utilised during 2011. Chinese walls are information barriers to ensure the proper handling and use of confidential information and the proper management of potential conflicts of interest. During 2011 the training was downloaded 770 times, and the glossary of terms was downloaded 762 times.

Following up on a recommendation of an internal Bank working group on the impact of corrupt practices on Bank operations, OCCO participated in retreats with various country and sector teams. The retreats provided opportunities to discuss integrity concerns and reinforce the message conveyed through formal training.

From time to time the Bank designates staff members and engages external consultants to act as its Nominee Director (ND) on the governing or supervisory boards of the enterprises in which it invests. As at the end of 2011, there was a total of 51 external consultants and 97 staff members acting as NDs for the Bank. As of that date, the Bank had 242 direct equity investments, out of which 174 had at least one Bank ND appointed. (As at the same date, the EBRD had a further 106 investments in equity funds, of which 91 had Bank staff members on Advisory Committees or Investment Committees.) These NDs are regarded as an important resource in strengthening the corporate culture and corporate governance of the investee company. To support this role, OCCO actively participates in the delivery of a

training programme focused on the obligations of NDs, with particular emphasis placed on the avoidance of conflicts of interest.

Following the 2010 review of the Bank's rules and procedures relative to the appointment of NDs, the programme was redesigned to also require the attendance of the Bank's external NDs at the session on obligations and conflicts of interest. In 2011, this training was delivered to 13 Bank staff members and 17 external NDs who were newly appointed during the year. The revised programme also affords both the internal and external Bank NDs the opportunity to raise concerns regarding an entity's corporate governance, as well as to share experience and lessons learned.

4.1.4 Enhanced transparency

The PCM provides individuals, groups and organisations that may be adversely affected by a Bank-financed project with a forum for raising their concerns. The PCM has two functions:

- a *compliance review* function: to assess whether a Bank-approved project complies with relevant Bank policies, specifically relevant environmental policies and project-specific provisions of the Bank's Public Information Policy
- a *problem-solving* function: to restore dialogue between the parties (typically, the project sponsor and members of the affected community), to try to resolve the underlying issues giving rise to the complaint.

In June the PCM was represented at the annual meeting of the Principals of the Independent Accountability Mechanisms, which was hosted by the Independent Consultation and Investigation Mechanism of the IDB in Washington, DC.

The Bank provides detailed information about the PCM (including a register of complaints with relevant reports, and information on its panel of experts) on its web site at www.ebrd.com/pages/project/pcm/how.shtml, and also in its annual *Sustainability Report*.

4.2. External prevention

This section highlights measures taken by the Bank to address issues of corruption in the environments in which it operates, namely in its countries of operations, investee companies and commercial partners.

4.2.1. Policy dialogue and technical assistance

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 of operations. Such dialogue and assistance seeks to strengthen legal and economic institutions and promote good corporate governance and sound business

environments. In this respect, the Bank regularly offers training workshops to financial actors in the areas of AML and CFT.

One such training seminar was delivered in Yerevan with 39 officials from Armenia's commercial banking sector as well as the central bank's Supervision Department and Financial Monitoring Centre taking part. The overall aim of the seminar programme was to help attendees better understand their obligations, as well as to increase the skills and abilities of representatives of the commercial banks represented in Armenia. The programme comprised 10 presentations from international and local AML/CFT experts supplemented by practical exercises and open sessions which facilitated an environment of mutual dialogue and allowed participants to share their knowledge and experience.

OCCO was successful in obtaining donor funds from Luxembourg totalling €450,000 to fund a series of AML/CFT and sanctions workshops aimed at financial institutions in the geographic region consisting of Central Asia, south-eastern Europe and the Caucasus for the period 2012-14. This funding allows for a sustained programme of seminars at a time when the FATF is placing increased focus on the effectiveness of efforts, not merely on the regulations themselves.

4.2.1.1. Evidence-based policy dialogue and technical assistance

The Bank's policy advice and technical assistance is based in part on extensive research carried out in the EBRD's region and in part on its appreciation of citizens' experiences of transition and their opinions on the extent of corruption and its impact on doing business in the region.

The Business Environment and Enterprise Performance Survey (BEEPS) examines the quality of the business environment as determined by a wide range of interactions between firms and the state. As described in previous Report Updates, BEEPS, which is a joint initiative of the EBRD and the World Bank, is a large-scale face-to-face survey covering perceptions of corporate governance and administrative (petty) and grand corruption among entrepreneurs in the services and manufacturing sectors. The fourth round of the BEEPS was conducted in 2008 and 2009, with results published in 2009. The fifth round of the BEEPS is currently ongoing in the field, with results expected to be published in 2012 or early 2013. In addition, the BEEPS is being expanded in two new ways: First, Russia will be sampled regionally in order to provide a more comprehensive portrait of the business environment in the country. Second, work has initially begun on a joint initiative of the EBRD, the World Bank Group and European Investment Bank, expanding BEEPS to Egypt, Morocco, Tunisia and Jordan, as well as other countries in the region. Data will be available for distribution in late 2013.

The Life in Transition Survey (LiTS), another joint EBRD-World Bank initiative, collects personal information on aspects of material wellbeing, generates measures of satisfaction and attitudes towards political and economic reform, and attempts to capture the extent to which corruption is affecting people's lives and their attitudes towards market reforms and political evolution. The LiTS was conducted for the first time in 2006, with results published in 2007, and again in 2010. Detailed results of

this most recent LiTS were published in June 2011. A chapter devoted to trust and corruption finds that, despite significant progress in several countries, the perception of corruption remains high in most of the Bank's region compared with western Europe.

The annual *Transition Report*, which is available on the Bank's external web site, is one of the EBRD's flagship research publications. It is a unique source of information on developments in the Bank's region. The *Transition Report 2011* made extensive use of data from the 2010 round of LiTS. One of its chapters focused on the impact of the 2008-09 crisis on attitudes towards democracy and the free market and concluded that the relative impact of the crisis was a key factor in affecting attitudes, especially towards political systems.

In addition, an EBRD-led technical cooperation research project is under way concerning the diversification of the Russian economy. The project assesses how commodity dependence and corruption may reinforce each other, and analyses the link between the quality of regional business environment on the one hand, and diversification/modernisation on the other. The report, which will be finalised in 2012, also examines policy options for reducing corruption and improving the quality of institutions.

4.2.1.2. Legal Transition Programme

Through its Legal Transition Programme (LTP), the Bank aims to help create a transparent, predictable and investor-friendly business climate in its countries of operations. In regards to the more specific objective of curbing corruption, two aspects of the Bank's LTP during 2011 can be highlighted: the first is the work focusing on increasing judicial skills in commercial law; and the second is piloting a new methodology targeting EBRD investee companies for corporate governance improvements.

1. Building judicial capacity in the commercial law sector of transition countries:

The EBRD's work in the area of judicial capacity focuses principally on raising the technical skills of judges to improve their ability to deal effectively with commercial law matters. Improving judicial capacity also has an impact on anti-corruption efforts by addressing a perceived lack of transparency and possible corruption in the judicial system, for example, through the adoption of more transparent judicial selection procedures and improved judicial training. In 2011 the Bank's LTP worked with the ministries of justice in the Kyrgyz Republic and Moldova on judicial capacity building measures in the commercial law area, with a view to promoting public confidence in the impartiality of the judicial system. Similar work was launched in Mongolia and Tajikistan during 2011, which will be further implemented in 2012 and thereafter.

2. Improving corporate governance practices in EBRD investee companies:

Commercial enterprises that follow sound principles of corporate governance are likely to pay more heed to conducting their business affairs in an ethical manner, with

effective board oversight and internal control mechanisms in place that limit opportunities for corruption. It is therefore a priority of the Bank to help companies and governments to overcome corporate governance weaknesses and cultivate sound business practices.

During 2011, the LTP, in collaboration with other Bank units, piloted a new approach for promoting corporate governance in investee companies. The approach aims to ensure that the way investee companies are governed meets international standards of good and effective governance. The new approach has now been tested in a number of banking operations. It is expected that in 2012, the Bank will take stock of the methodology tested in 2011 and decide how to apply it in the future.

4.2.2. Inter-organisational cooperation

The transnational nature of corruption calls for collaborative preventive measures. The EBRD leverages the range of its outreach and efforts by working with civil society, the private sector, IFIs and other intergovernmental organisations.

The EBRD remains an active member of the steering committee of Transparency International's Business Principles for Countering Bribery and continues its engagement with the private sector, notably through its participation in the Wolfsberg Group, an association of 11 global banks working together to develop financial services industry standards for Know Your Customer, AML and CFT policies.

In addition, the EBRD maintains close bi- and multilateral relationships in the field of anti-corruption with other IFIs. Alongside the International Monetary Fund (IMF), the World Bank, the EIB and the African, Asian and Inter-American Development Banks, the EBRD is an active participant in the joint International Financial Institutions Anti-Corruption Task Force.

Because money laundering and terrorist financing are very often transnational phenomena, much inter-organisational anti-corruption cooperation relates specifically to those areas. The EBRD is involved in several intergovernmental initiatives, among them Moneyval, the AML compliance body of the Council of Europe, which makes assessments of the adequacy of money laundering legislation and regulation in almost all of the Bank's countries of operations; the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG), a regional policy-making body with a mandate to develop and implement legal and institutional frameworks to combat money laundering and the financing of terrorism of which the EBRD has been a member since 2007; and the FATF, an intergovernmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF's focus in 2011, after more than two years of efforts, was on revitalising its set of recommendations, including requirements for stronger safeguards in the financial sector, strengthened law enforcement tools and improved international cooperation. The revised framework includes enhancing the methodology of country assessment, and devising a means of evaluating the overall "effectiveness" of national and international efforts – in which the EBRD is actively involved.

Where the FATF has identified a jurisdiction as having strategic AML/CFT deficiencies, the Bank undertakes enhanced due diligence on all its proposed counterparties within this jurisdiction in order that it can be satisfied that these entities have appropriate AML /CFT procedures and are not engaging in terrorist financing.

In 2011 OCCO staff attended all of the meetings of FATF and a meeting of the FATF subgroup on effectiveness, as well as a FATF working group hosted by the Canadian delegation in Ottawa, and provided quarterly updates on EBRD AML/CFT activities. OCCO staff also participated in EAG meetings, and the reports of the EAG are posted on *OCCOlink* and available within the Bank.

5. Detecting corruption

Effectively combating corruption requires not only measures to prevent its occurrence but tools to detect it when it does. Detection requires the gathering and analysis of information that establishes the occurrence or identifies the risks thereof. The EBRD has implemented information-gathering systems that facilitate and, in certain circumstances, compel the reporting of corruption.

The Bank's Internal Audit department is responsible for evaluating the adequacy and effectiveness of controls that deter, detect and address corruption. The detection of corruption also relies heavily on the cooperation of Bank staff, who are required by internal mechanisms to report suspected misconduct on the part of Bank personnel as well as suspicions of fraud, corruption, collusion or coercion (each a "Prohibited Practice") in relation to a Bank project. In return, these internal mechanisms call on the Bank to protect employees who comply in good faith with their obligations to report from acts of reprisal or retaliation by anyone within the EBRD.

5.1. Conduct and Disciplinary Rules and Procedures

As previously stated, a comprehensive review of the Policy for Reporting and Investigating Suspected Misconduct (PRISM) which, together with a review of the Bank's Disciplinary Procedures (DPs), began in 2010 was completed in 2011 with the adoption and entry into force of the new Conduct and Disciplinary Rules and Procedures (CDRPs). The changes introduced by the CDRPs include a uniform set of rules and procedures governing both the investigative and disciplinary processes with respect to alleged misconduct by Bank staff; the broadening of the investigation stage to cover the gathering of both inculpatory and exculpatory evidence; and exclusive responsibility placed on OCCO, with few exceptions, to carry out investigations. As was the case under PRISM, it remains the responsibility of the Vice President responsible for Human Resources under the new scheme to decide whether to formally accuse a staff member and, after providing the staff member with an opportunity to respond to the accusation, to make a determination as to whether the evidence establishes that it is more likely than not that the staff member committed the alleged misconduct. The CDRPs also govern the process for the imposition of disciplinary sanctions where misconduct is established.

5.2. Review of Codes of Conduct

In 2011 a comprehensive review of the respective Codes of Conduct for Board officials and for EBRD personnel was undertaken, as contemplated under the Codes themselves which were adopted by the Governors in 2006. The rules in the respective Codes were reviewed in light of relevant history/background and the Bank's experience with implementation of the rules, benchmarking against other comparator codes both for the Board and Staff Codes, and discussions from a series of meetings of the Budget and Administration Affairs Committee of the Bank's Board of Directors. Revised versions of both Codes were submitted to the Governors for approval in January and entered into effect as of 29 February 2012.

The principal changes to the Codes are as follows:

- clarification and simplification of certain provisions, particularly with respect to the various facets of conflict of interest (for example, in connection with personal financial interests; outside activities; acceptance of gifts and awards; post-employment), while providing guidance on compliance
- recognition of the duty of loyalty owed by staff and Board officials, respectively, to the Bank
- reaffirmation and, in the case of Board officials, introduction of the obligation to report suspected misconduct and the concomitant duty to refrain from retaliation against whistleblowers
- allowing for the possibility of disclosure of alleged misconduct to local, national or supranational authorities where there is reason to believe that the laws of a member country may have been violated
- provision of more transparent procedures for dealing with alleged breaches of the respective Codes.

The Codes have thus been aligned with current best practice of comparator organisations and reaffirm the Bank's commitment to hold its own staff and officials to the highest ethical and integrity standards.

5.3. Procurement Policies and Rules

Procurement, especially procurement in large-scale public projects, is often vulnerable to corrupt practices. Whereas Bank clients are responsible to ensure that all Bank-financed tendering and contracting complies with the Bank's Procurement Policies and Rules (PP&Rs) or other agreed procedures, the Bank's Procurement department is responsible for reviewing the client's procurement procedures, documents, tender evaluation reports, award recommendations and final contracts to ensure that the tendering process and contract award has been carried out in accordance with the agreed procedures. Complaints are reviewed by the Bank's Procurement Complaints Committee, of which the CCO is a member. As part of its compliance function, the Procurement department also provides support to OCCO in reviews of allegations of fraudulent and corrupt practices in relation to a procurement exercise and works with other departments in the Bank and external stakeholders in

various initiatives to combat the occurrence of fraud and corruption in procurement generally. In 2011 OCCO referred five complaints involving irregularities in the procurement process to the Procurement department. Following its review of these referrals, the Procurement department dismissed three matters on the grounds that the alleged irregularity could not be substantiated. Two matters were referred to the Bank's Procurement Complaints Committee for determination. In both cases, the Procurement Complaints Committee upheld the complaint and requested the Bank's client to take remedial action.

In addition, the Procurement department initiates and manages Independent Procurement Reviews, which include the identification of any suspected Prohibited Practice.

6. Investigating and sanctioning corruption

Investigating and sanctioning misconduct and corruption constitute the third and fourth pillars of the EBRD's anti-corruption strategy. If an allegation of misconduct is made against a staff member, the investigation will be carried out in accordance with the CDRPs which also regulate the process to be followed in making a determination as to whether misconduct has been established and the imposition of disciplinary measures, if any. Where such an allegation is made against a Board official, the investigation is governed by the provisions of the Bank's Code of Conduct for Officials of the Board of Directors. In cases where Prohibited Practices are suspected or detected to have occurred in Bank projects, the investigation and sanctioning, if any, is governed by the Bank's EPPs.

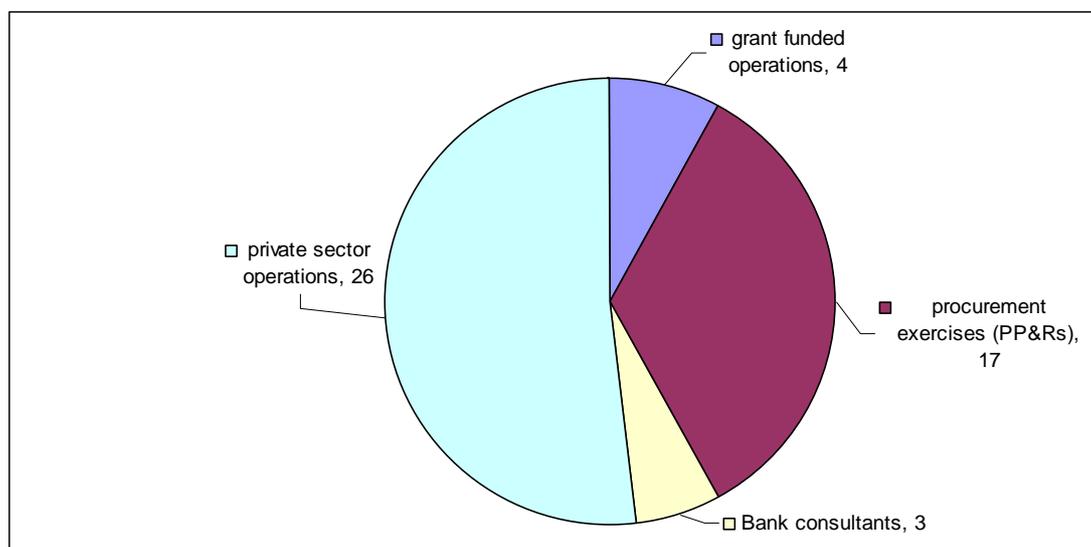
6.1. Enforcement Policy and Procedures

The EPPs, which were first introduced in March 2009 and revised in May 2010, provide a mechanism to deal with allegations of Prohibited Practices, i.e., fraud, corruption, collusion and/or coercion, in any activity or project which the EBRD has financed or committed to finance from its ordinary capital resources, Special Fund resources or from cooperation funds administered by the Bank.

The first proceedings instituted under the EPPs culminated in a decision taken in July 2011 to debar two entities, together with two of their respective affiliates, from any new Bank project for a period of three years. The proceedings had established that it was more likely than not that the entities had knowingly, or at least recklessly, misrepresented material facts in the course of the tender in relation to a Bank project and consequently had engaged in a Prohibited Practice. These four debarments have also resulted in cross debarments by the other participating institutions under the terms of the Agreement for the Mutual Enforcement of Debarment Decisions discussed below in Section 6.2.

In the course of 2011, OCCO received 50 new complaints alleging the occurrence of a Prohibited Practice in either the Bank's public sector procurement or private sector operations. This increase in complaints over the previous year is in part attributable to the increased prominence of the mechanism to report suspected fraudulent or corrupt practices on the Bank's internet site. The nature of the 50 complaints received by OCCO by category is shown in Table 1.

Table 1:
Complaints of Prohibited Practices
by type (2011):



All of the allegations received were subject to a preliminary assessment by OCCO and, where warranted, a further investigation and/or referral to the appropriate unit within the Bank. A summary of their disposition is as follows:

Private sector operations:

- Nine of these complaints concerned allegations that Bank clients had offered improper inducements to public officials during negotiations. These complaints are being followed up externally as well as internally.
- Six alleged that the Bank's funds provided to Bank clients were subject to fraudulent or corrupt use. Five of the six matters were closed following preliminary assessment or further investigation. The sixth matter is undergoing a detailed further investigation to determine what action is needed to address the allegations.
- Four complaints concerned allegations that the senior management of Bank clients had previously engaged in corrupt practices and/or had been convicted of criminal offences unrelated to the Bank project. OCCO confirmed that the allegations did not involve Bank projects or Bank funds, and that appropriate action was being taken by the entities to resolve the concerns in question, including replacement of the impugned individuals. As a result, no further action was required under the EPPs, although enhanced monitoring of the entities remains in place.
- Seven complaints alleged that Bank clients had acted illegally or in breach of local laws. Following preliminary assessment, it was determined that, as the clients had undertaken appropriate remedial actions, including replacement of the impugned individuals and the fact that no EBRD funds were subject to misuse, there was no need to undertake further action under the EPPs.

Complaints regarding procurement exercises (PP&Rs):

- There were eight complaints concerning procurement exercises in technically complex sectors that are prone to allegations of fraud and corruption. Of these, five were closed following a preliminary assessment, and three are undergoing further review.
- Three complaints concerning the award of contracts by municipal authorities under Bank-funded contracts for municipal works were closed for insufficient evidence.
- Five complaints concerned irregularities in the procurement process and were accordingly referred to the Bank's Procurement department for further assessment or action.
- One matter concerning favouritism to certain tenderers in a procurement exercise conducted by a national statutory authority was closed for insufficient evidence.

Grant-funded operations:

- Four complaints alleged that operations that received Bank grant funding had been subject to fraud or corruption. Two of these complaints were closed following preliminary investigation and two were closed following further investigation.

Bank consultants:

- Three complaints involved allegations that consultants working for the Bank had engaged in Prohibited Practices and/or were in breach of their consultancy services contracts. The contract was immediately terminated in one matter, and the Bank no longer engages in business with the individual. Another was determined to be performance-related rather than involving fraud or corruption. The third matter is currently undergoing preliminary assessment.

As of the end of the reporting period, there were 11 pending matters that were subject to further investigation.

6.2. Agreement for the Mutual Enforcement of Debarment Decisions

In 2010 the EBRD, the World Bank and the African, Asian and Inter-American Development Banks (the "participating institutions") established a mechanism whereby a debarment decision made by one participating institution may be given effect by the others. The mechanism is set out in the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD), which was signed on 9 April 2010. The AMEDD combats corruption by making it almost impossible for an entity that has been debarred by one participating institution to receive funding from another. The AMEDD is currently in force among the Asian Development Bank, the Inter-American Development Bank (in force as of 2011), the EBRD and the World Bank.

The first sanctions resulting from the AMEDD were posted on the EBRD web site on 11 February 2011. As at year-end, there were 36 debarred entities and 23 debarred individuals, based on 36 debarment notices from the World Bank and 23 from the ADB.

In July 2011 the Bank agreed to apply the Principles and Guidelines for Sanctions to the extent appropriate to the circumstances of a given matter. This was the latest step in the agreed harmonisation efforts of the MDBs resulting from the Uniform Framework of 2006 and most recently the AMEDD. These guidelines are essential to ensure that the participating institutions are making sanctioning decisions in a fair and proportionate manner, thereby enhancing the credibility of the cross debarment process.

It is expected that the issue of sanctioning corporate groups (parent/subsidiary/affiliates) will next be considered for possible harmonisation among the MDBs.

A table listing all current debarred entities and persons is detailed on the EBRD compliance web page at www.ebrd.com/pages/about/integrity/list.shtml

6.3. Misconduct and disciplinary procedures

In accordance with the transitional arrangements of the CDRPs, disciplinary procedures were instituted against a staff member in accordance with the Bank's DPs following a finding of misconduct under the Bank's PRISM. At the conclusion of these proceedings, the staff member was dismissed. Also in 2011, OCCO investigated 10 cases of suspected misconduct on the part of staff members under the CDRPs. Of these, five were closed after preliminary investigation and/or initial inquiries. The cases in which no further action was required involved, *inter alia*, allegations of harassment and various aspects of conflict of interest.

Of the remaining five cases, OCCO recommended in two matters that the misconduct in question be addressed by means of a warning or an oral censure to the staff member without a further disciplinary procedure. The CDRPs allow this possibility in cases where the Chief Compliance Officer determines that the matter may be appropriately addressed without the need for further proceedings. Of these two cases, one involved fraudulent benefits claims which were substantiated. The Chief Compliance Officer advised that the matter could be dealt with by way of oral reprimand and recovery of overpaid amounts. The second case concerned a staff member who was accused of gaining unauthorised access to confidential information. In the circumstances, it was recommended that the matter be dealt with by means of oral reprimand. With respect to the remaining three cases: (i) in the first matter, which involved allegations of harassment, the staff member's appointment was not renewed following expiration of a fixed-term appointment; (ii) the second matter was referred to the Vice President responsible for Human Resources for appropriate action and has been dealt with; and (iii) the final matter, involving allegations of inappropriate outside activities, was undergoing formal investigation at the end of the reporting period.

In January 2011, EBRD received requests from authorities in the Russian Federation and the United Kingdom to lift the immunities of a former EBRD Director, two of the Director's advisors, one of the Director's former advisors and an EBRD employee who had served as the Director's secretary, in connection with criminal investigations involving allegations of money laundering and bribery. The EBRD

Board agreed to this request and also agreed to fully cooperate with the national investigations. During 2011, all of individuals subject to these requests terminated their involvement with EBRD. The Bank continues to cooperate with the ongoing criminal investigations in the United Kingdom and Russian Federation.

7. Outlook for 2012

It is anticipated that the following anti-corruption initiatives and activities will be undertaken in 2012:

- As of the date of this Report, the Governors have approved revised versions of both the Code of Conduct for Officials of the Board of Directors and the Code of Conduct for Bank Personnel. The implementation of the new Codes will be accompanied by training, as appropriate, as well as the preparation and approval of guidance notes on various aspects of the rules.
- OCCO will continue to provide advice and training on the adequacy of integrity/AML/IDD procedures, having particular focus on operations in SEMED and, in regards to that region, the application of the Bank's 'Know Your Customer' policy.
- The Bank will continue to work with its MDB counterparts regarding the effective implementation of the AMEDD and the various harmonised guidelines issued under the Uniform Framework for Preventing and Combating Fraud and Corruption.
- Following a benchmarking of whistle-blower protection policies in comparator IFIs, it is expected that a new policy on whistle-blower protection will be adopted in 2012.
- Consideration will be given as to whether to review and revise the EPPs in light of experience to date.

8. Contact information

Questions regarding this report should be addressed to:

The Office of the Chief Compliance Officer (OCCO)
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom
Telephone: +44 (0)20 7338 6000
Fax: +44 (0)20 7338 7633
E-mail: compliance@ebrd.com

Complaints, including reports of suspected fraud or corruption, can be submitted via compliance@ebrd.com, by phone, or by writing to OCCO at the above address.