

Anti-corruption Report 2008

For the year ending 31 December 2008



European Bank
for Reconstruction and Development

Message from the President

The financial crisis of the past year has triggered a rapid deterioration in the economies of many of the Bank's countries of operations and has severely shaken confidence in globalisation, capitalism and financial innovation. In response, the European Bank for Reconstruction and Development (EBRD) has adapted its business strategies to maximise its support to financial institutions and enterprises that are suffering because of the crisis. In implementing these plans, the EBRD remains committed to the highest standards of integrity, openness and transparency in all its operations.



This updated report is the EBRD's third Anti-corruption Report and covers the year 2008. It highlights the efforts the Bank has made during the year to promote integrity and corporate governance in the projects that it finances, and the measures undertaken to combat fraud and corruption both internal and external to the Bank. The report is also intended to assist the Bank's stakeholders in evaluating the Bank's commitment to meeting its integrity responsibilities.

In 2008 the EBRD continued to concentrate on preventing instances of fraud or corruption in its project-financing activities and its public sector procurement. The Bank's two integrity-related courses "Integrity matters!" and "Anti-money laundering" were updated and new policies and guidelines were issued. In particular, the Bank's Enforcement Policy and Procedures – a mechanism to combat fraud and corruption in EBRD projects – details how the Bank will respond to allegations of fraud or corruption in relation to the Bank's procurement activities or Bank-financed projects.

As a result of the Bank's increased activity, the resources allocated to the Office of the Chief Compliance Officer (OCCO) were increased and additional personnel recruited to perform integrity assessments and to conduct internal investigations.

By the end of the year the Bank had received eight complaints of staff misconduct, of which only two required formal investigation. This continuation in the trend of a small number of complaints of staff misconduct is commendable and can be attributed to the efforts the Bank makes to ensure that its staff is aware of the standard of conduct that is expected of them.

The Bank is justifiably proud of its commitment to integrity. While 2009 has brought many new and difficult challenges to our countries of operations, our resolve to ensure that all the Bank's operations are, to the extent possible, free from corruption and fraud, and that our staff is beyond reproach in its professional conduct, is undiminished.

Thomas Mirow
President

About the EBRD

The EBRD is owned by 61 countries and two intergovernmental institutions. It aims to foster the transition from centrally planned to market economies in 30 countries from central Europe to central Asia (referred to as “the region”). The admission of Turkey as the EBRD’s 30th recipient country as of 1 November 2008 further demonstrates the Bank’s commitment to promote private and entrepreneurial initiative in the region.

The EBRD is the largest single investor in the region and mobilises significant foreign direct investment (FDI) beyond its own financing. It invests in virtually every kind of enterprise and financial institution, mainly in the form of loans and equity. It also works with publicly owned companies to support privatisation, the restructuring of state-owned firms and the improvement of municipal services. The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment.

The EBRD is committed to promoting environmentally sound and sustainable development in the full range of its investment and technical cooperation activities. The EBRD has also developed mechanisms to ensure that the highest level of integrity is achieved in all of its activities.

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 sensitivity.

Functioning as a catalyst of change, the EBRD

- promotes co-financing and FDI
- mobilises domestic capital
- provides technical assistance.

More information about the EBRD can be found at www.ebrd.com.

1. Introduction

This Anti-corruption Report from the EBRD highlights the Bank's work during 2008 to combat fraud and corruption and promote integrity within its operations.

As reported previously, the Bank pursues a four-step approach of preventing, detecting, investigating and sanctioning fraud and corruption. However, the details of the Bank's anti-corruption strategies are continually evolving in response to changes in the Bank's operating environment and the lessons learned by evaluating projects and working with other international financial institutions (IFIs).

As a result, each year the Bank publishes a report that highlights the changes made to its anti-corruption policies and procedures in the previous 12 months, as well as describing the Bank's ongoing integrity and anti-corruption initiatives.

2. Office of the Chief Compliance Officer

The task of protecting the integrity and reputation of the Bank, promoting ethical standards of behaviour, and strengthening the Bank's accountability and transparency falls mainly on the Office of the Chief Compliance Officer (OCCO). OCCO helps to identify, assess and monitor integrity risks related to its clients as well as personal conduct-related risks. OCCO also contributes, independently, to the Bank's effective management of integrity risks.

OCCO's overall objectives are:

- to ensure that the Bank's ethical rules of conduct and internal standards, procedures and guidelines on anti-money laundering; counter-terrorist financing; conflicts of interest; treatment of confidential information; and integrity due diligence are in line with, or reflect, internationally accepted norms
- to ensure that Board officials, senior management and staff members fulfil their obligations to behave in an ethical manner, consistent with the relevant Code of Conduct, and that they are adequately trained to meet these obligations
- to oversee the effective administration of the Bank's external project complaint mechanism, which reviews allegations that the Bank has failed to adhere to certain specified policies.

OCCO's functions include taking responsibility for the conduct, analysis and provision of advice as to the suitability of prospective clients; investigations into allegations of fraud, corruption or misconduct; complaints handling from groups adversely affected by Bank-financed projects; and protecting the institution from acts of criminality, such as money laundering and terrorist financing.

In addition, OCCO is responsible for ensuring that the Bank implements an ethical regime of behaviour on the part of those individuals who work for or with the institution.

OCCO is also responsible for administering the Bank's two codes of conduct that regulate, respectively, the behaviour of Board officials and staff members, including its senior management. The codes represent and articulate the values, duties and obligations, as well as the ethical standards that the Bank expects of its officials and staff. They also regulate the manner in which private financial affairs can be conducted and the level of disclosure required.

OCCO also administers the Bank's Procedures for Reporting and Investigating Suspected Misconduct (PRISM). PRISM is the principal means by which OCCO seeks to preserve the internal integrity of Bank staff. The conduct of fair and expeditious administrative investigations into allegations of wrongdoing on the part of staff members ensures that the behaviour of staff is kept above reproach. OCCO is also responsible for ensuring that the employees who in good faith report integrity issues are not retaliated against.

OCCO provides a range of training courses for staff members on integrity-related issues. The "Integrity matters!" course is compulsory for all staff and is part of the orientation programme ("Exploring the EBRD") for all new recruits. In 2008 the "Integrity matters!" course was updated to include new case studies dealing with the Bank's Chinese Wall guidelines and the bullying and harassment policy that had been adopted over the course of the year. By the end of 2008 the Bank had held eight "Integrity matters!" training programmes, with 187 Bank personnel attending.

OCCO also organises a compulsory course for the Bank's project-facing staff concerning anti-money laundering, countering the financing of terrorism and the Bank's integrity due diligence procedures and guidelines. A third OCCO-organised course focuses on the obligations of Bank employees and external individuals who are Bank nominee directors appointed to the supervisory boards of some of the Bank's investee companies.

In view of the Bank's commitment to combating fraud and corruption in its operations and ensuring that its staff adheres to the highest standards of integrity, two additional staff members were recruited in 2008, bringing the OCCO total headcount to nine. In addition to the Chief Compliance Officer and Deputy Chief Compliance Officer, OCCO now has four staff dedicated to examining potential integrity and compliance issues affecting the Bank's projects. OCCO has recruited a Senior Investigations Manager responsible for carrying out investigations into cases of suspected misconduct, fraud, corruption or other forms of prohibited practices in the Bank's public or private sector activities, including procurement, or on the part of Bank employees. The Senior Investigations Manager also works on the development of related policies and procedures.

3. The EBRD's strategy for preventing fraud and corruption

External assistance

Critical to the success of the Bank's activities is its ability to appreciate the attitudes and experiences of transition of the region's citizens, including their perception of the level of fraud and corruption and its impact at the business and individual level. To assist with this endeavour, in 2008 the Bank conducted its Business Environment and Enterprise Performance Survey (BEEPS), a joint initiative of the EBRD and the World Bank Group (the World Bank).

The objective of this BEEPS survey, the fifth to have been conducted since 1999, is to provide feedback from enterprises on the state of the private sector in the Bank's countries of operations by assessing the constraints to private sector growth, including corruption, crime, regulations and "red tape". The survey creates statistically significant business environment indicators that are comparable across countries through interviews with firms in the manufacturing and services sectors.

The results of the 2008 BEEPS are due in early 2009 and will, for the first time, be comparative not only with central eastern Europe and Central Asian countries, but also with countries in other parts of the world.

The results of this survey and other similar initiatives enable the Bank, in part, to provide technical assistance to policy-makers and businesses on effective measures to prevent, and mitigate the consequences of, fraud and corruption.

In addition, the Bank recognises that good corporate governance is essential for stimulating private sector investments and allowing enterprises to thrive, and that enterprises must be properly organised and treat their shareholders, customers, suppliers and other stakeholders in a transparent manner.

The Bank plays an important role in improving the corporate governance, transparency and business practices of enterprises in its countries of operations. It achieves this, in part, by taking equity stakes in enterprises, in whose supervisory boards the Bank usually participates, and by providing them with technical assistance. By improving the corporate governance system of its investee companies, the Bank helps these companies to apply sound business principles to their operations, thus achieving an effective transition impact.

The Bank's equity investments also assist in raising corporate governance standards in those companies receiving investment and in promoting an entrepreneurial culture. In this difficult market, the EBRD committed €178 million to six new private equity funds in 2008, with the funds allocated to investments in the Bank's region. In addition, the Bank made 76 direct equity investments totalling €1.1 billion, representing 20 per cent of the Bank's annual business volume during the year.

The Bank's promotion of corporate governance goes beyond its purely financial operations, as good corporate governance also depends on the broader legal and regulatory environment prevailing in the country. In 2008 the EBRD provided a significant amount of legal technical assistance to its early transition countries (ETCs). Marking the completion of work undertaken in 2007, in April 2008 during a conference held at EBRD Headquarters in London, the Bank released the findings of a policy brief on the corporate governance of

banks in Eurasia (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Ukraine and Uzbekistan). This policy brief was developed in collaboration with the Organisation for Economic Co-operation and Development (OECD) and will be used to advise governments of the ETCs on how to strengthen the governance of their banking institutions.

The Bank also participated in a conference – attended by officials from the European Union and Commonwealth of Independent States (CIS), senior executives from EU and CIS companies, in-house lawyers in the region and judges – to discuss the latest core developments in corporate legal practice. The Bank’s presentation on “Equity investments in the CIS: good corporate governance matters” highlighted its participation in the region and the importance of corporate governance standards to the success of the Bank’s mission.

In 2008 the Bank participated in a number of country-specific and regional initiatives.

- Support continued for the Kyrgyz Supreme Court and the Judicial Training Centre to raise technical skills for judges dealing with commercial matters. During 2007-08, eight, three-day training seminars were organised on various topics of commercial law; a new library was opened at the Supreme Court; internships for junior judges took place in the courts of Russia and Kazakhstan; and a “bench-book” providing guidance on Kyrgyz commercial law was written.
- The Bank assisted the Serbian Bankruptcy Supervisory Authority to prepare new standards for the insolvency administrator profession. The standards are due to be released in 2009 and are expected to facilitate the training and supervision of insolvency administrators in the country.
- A project was initiated to develop a new CIS model company law, covering such topics as shareholders’ rights and interests; raising of capital; take-overs and directors’ duties. The project was formally launched with a kick-off meeting of the working group on 23 April 2008, and the first draft model law is due to be presented in mid-2009 to the CIS Inter-Parliamentary Assembly.
- To address shortcomings in compliance with OECD principles, the Bank, under a project financed by the EBRD’s Shareholder Special Fund, provided technical assistance to ensure that the corporate framework reform being undertaken by Serbia is in line with international standards and best practices.
- The Bank provided technical assistance for the development of new Russian legislation on shareholdings; liability of company registrars; protection of shareholders’ rights and disclosure of the shareholding structure. This work includes providing the Russian Ministry of Economic Development and Trade with a comparative analysis of the international standards and best practices in place in some Western jurisdictions, along with a set of recommendations tailored for the development of Russian legislation.
- The Bank has assisted the Armenian Ministry of Trade and Economic Development in the development of a corporate governance code applicable to state-owned companies, listed companies and banks.
- Building on the results of a comprehensive consultation with affected stakeholders, the Bank has helped the Moldovan authorities to enact a new law on mortgages. The new law came into effect in September 2008.

International cooperation

The EBRD takes an active role in the international fight against corruption. To bolster the Bank's support for standard-setters, in 2008 the EBRD continued its involvement with the Extractive Industries Transparency Initiative (EITI); Moneyval – the anti-money laundering compliance body for the Council of Europe; the Wolfsberg Group; and Transparency International. The Bank also maintained close relations with the OECD; Council of Europe; World Bank Group; Asian Development Bank (ADB); African Development Bank (AfDB); and the InterAmerican Development Bank (IaDB); and participated in numerous meetings to coordinate various integrity initiatives.

Throughout the year, OCCO attended the meetings of the Financial Action Task Force, at which it provided updates on the Bank's anti-money laundering and counter-terrorist financing activities.

In addition, OCCO participated, as an observer, in three meetings of the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG). The EAG is a regional Financial Action Task Force style policy-making body, whose mandate is to research, provide technical assistance and create a legal and institutional framework to combat money laundering and terrorist financing in the EAG member states. With six out of the seven EAG member states also EBRD countries of operations, observer status is important as it provides the Bank with first-hand information to help tailor the Bank's policy dialogue and provision of technical assistance to those states.

In October 2008 OCCO participated in the 13th International Anti-Corruption Conference in Athens in Greece. The theme for the conference was "Global transparency: fighting corruption for a sustainable future", with a focus on the role of transparency and accountability in human security, climate change, sustainable globalisation, natural resources exploitation and management. More specifically, the CCO was a panellist in the workshop "Fight against corruption by the multilateral development banks".

On the same occasion, the CCO also attended the 6th EITI Board Meeting and the associated conference on the role of IFIs in the EITI. This conference clarified the obligation of participants in extractive industries to promote and implement the EITI, and also served as a platform for the participants to exchange experiences and lessons learned.

International cooperation

In the fight against corruption, the EBRD works with, or supports, the efforts of the:

- Council of Europe (Moneyval)
- Eurasian Group on Combating Money Laundering and Financing of Terrorism
- Extractive Industries Transparency Initiative
- Financial Action Task Force
- International Bar Association
- International Financial Institutions Anti-corruption Task Force
- International Group Against Corruption
- Multilateral Development Banks Investigators Forum
- Organisation for Economic Co-operation and Development
- The Wolfsberg Group of Private Banks
- Transparency International.

Internal preventative measures

Institutional controls

Integrity and reputation are key assets of the Bank as it promotes high ethical standards and good business practices both within the Bank and as a key transition component in its operations.

The Bank's commitment to integrity and transparency was recognised by the One World Trust in its 2008 Global Accountability Report (GAR). The GAR evaluated four areas of accountability: transparency, participation, evaluation, and complaint and response mechanisms, and determined that the EBRD is the highest-ranked IFI and second-ranked among 30 global organisations, including intergovernmental, corporate and NGO bodies it examined in the course of its study.

The Bank constantly reviews and benchmarks its internal policies to ensure that they reflect "industry best practice" and are effective in promoting ethical business practices that are free from fraud and corruption. During 2008 the Bank developed and updated several policies to enhance its institutional controls.

- The Bank issued Chinese Wall guidelines. The principal objective of these guidelines is to provide for the proper handling and use of confidential information.
- In recognition of the importance of public transparency as a measure of the Bank's accountability and to promote stakeholder confidence in the Bank's operations, the Bank reviewed and revised its Public Information Policy (PIP) ahead of its scheduled review date. In part, this policy sets out the ways in which the EBRD discloses information and consults with its stakeholders on the Bank's policies and projects.
- In July 2004 the EBRD established its Independent Recourse Mechanism (IRM) for the purpose of giving local groups who are, or who are likely to be, materially and adversely affected by a Bank-financed project, the means of raising a complaint with the Bank. The Mechanism's goal is to operate independently from banking operations and to strengthen the Bank's accountability and increase the transparency of its decisions in relation to its banking operations.
- In March 2008 the EBRD began its review of the IRM, to evaluate whether, in light of experience, the IRM is fulfilling its objectives and whether its procedure and processes could be enhanced and made more efficient and effective. The review has included a

public comment period on the current IRM Rules of Procedure, internal and external consultations on the current IRM, and a benchmarking exercise.

- In mid-December 2008 the EBRD issued the first draft of the revised IRM Rules of Procedure for public consultation and proposed to rename the mechanism the Public Complaints Mechanism (PCM). While retaining the original functions of the IRM (namely, compliance review and problem-solving) the new rules represent a streamlined and clear procedure for addressing complaints from registration to monitoring. The new PCM will come into effect in early 2010.

Promoting ethical standards within the EBRD

The EBRD remains committed to ensuring that all staff members and Board officials adhere to the highest standards of integrity. As previously noted, the Bank does this through the administration of its codes of conduct, which includes enhanced financial disclosure obligations for staff and Board officials.

By issuance of its new Policy on Harassment, Sexual Harassment and Abuse of Authority, the Bank provided staff with clarification as to what constitutes harassment, sexual harassment and abuse of authority, and staff members' responsibilities in creating a workplace free of such inappropriate behaviour. The policy also provides two options to staff who believe they may have been subjected to such conduct: one informal and the other recourse to the Bank's Procedures for Reporting and Investigating Suspected Misconduct (PRISM). To facilitate the implementation of this policy, the Bank's HR department has created a new position to deal with personnel relations.

The new Chinese Wall guidelines provide for the proper handling of confidential information and the management of potential conflicts. The guidelines also clarify where Chinese Walls are located within the Bank and how they operate; and provide a mechanism for authorisation to cross over the walls.

When appointing nominee directors to the supervisory boards of its investee companies, the Bank recognises its responsibility to avoid the appearance of conflict. The Bank provides specific training to its nominee directors to enhance their understanding of the role of nominee directors and their obligations to the investee company. In 2008 the training for nominee directors was re-tendered and revamped and the Bank also began holding offsite programmes with the aim of bringing both internal and external Bank nominee directors together and enabling them to share experiences as well as lessons learned.

4. Preventing and detecting fraud and corruption

Ex ante prevention

The Bank's long-standing practice has been to adhere to the highest standards of integrity in the conduct of its business and to ensure that its behaviour and the manner in which it chooses its project sponsors, clients, co-financiers and counterparties meet these standards. Further, 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 both within the Bank and as a key transition component in its operations.

Integrity risks can stem from risks associated with the Bank's investment activities (client-related risks), as well as from the improper behaviour of Bank employees (personal conduct-related risks). Failure to recognise and address these integrity risks can result in reputation risk which can damage the Bank's name and standing. For this reason, the Bank ensures that its integrity standards are complied with and that its integrity risks are identified and managed in a timely manner.

Integrity due diligence is the process by which information is obtained by the EBRD in order to allow it to identify and assess potential reputation and integrity concerns that may be associated in dealing with certain proposed clients or sponsors.

The Bank has developed integrity due diligence procedures and guidelines which reflect its long experience and practice in addressing integrity issues in its countries of operations. These integrity guidelines and procedures help the Bank to assess the potential risk associated with a particular client or sponsor while providing clear guidance as to what is unacceptable. The procedures rely on a risk-based approach whereby higher risks are subjected to increased levels of scrutiny and control.

The Bank requires its bankers to properly identify client-related integrity concerns given their proximity to, and familiarity with, potential clients, the regulatory environment and the country- and sector-specific information relevant for each project. 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.

OCCO provides advice on approximately one-third of the Bank's transactions and this number has been increasing steadily each year. In 2008 OCCO provided advice on approximately 280 projects. This is a 15 per cent increase over the number of projects in 2007 and reflects the fact that the Bank amended its integrity due diligence guidelines in late 2007 to require enhanced due diligence and project monitoring for projects involving certain categories of people such as politically exposed persons, and for projects in sectors that require the issue of government licences or permits, for example, extractive industries and real estate.

In addition to providing transaction advice, every quarter OCCO reviews the implementation of the Integrity Due Diligence Checklist, which includes the Bank's Anti-Money Laundering Checklist requirements. In 2008 OCCO determined that all projects it reviewed fully complied with the Integrity Due Diligence Procedures and the Anti-Money Laundering Due Diligence Procedure.

Anti-money laundering and combating terrorist financing

The EBRD conducts anti-money laundering (AML) and counter-terrorist financing (CFT) training sessions both internally for staff members and externally for financial institutions in the Bank's countries of operations. Internally, the training is designed to ensure that Bank staff members have knowledge of the best anti-money laundering and counter-terrorist financing policies and procedures, and the skills to identify potential risks and structure Bank transactions accordingly. The main objectives of the external training are to increase the awareness of the banking sector in the Bank's countries of operations to the need for AML/CFT systems; identify the risks of being involved in money laundering and the financing of terrorism; and to assist financial institutions in upgrading their anti-money laundering policies and procedures. In addition, the in-country training, and in particular regional training, affords the participants the opportunity to network and establish dialogue with colleagues from other financial institutions as well as the relevant government officials.

In 2008 the Bank organised six anti-money laundering and combating terrorist financing courses at its Headquarters, with 51 staff members attending. The Bank also held four external anti-money laundering workshops in Armenia, Russia (Southern Federal District of the Russian Federation), Mongolia and a regional event in Georgia with participants attending from ten ETC/CIS countries, namely: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan and Uzbekistan.

Ex post detection

Detection is a critical step in the Bank's approach to combating fraud and corruption. As reported previously, the Bank employs a number of different detection methods.

The Bank has a toll-free hotline, which can be used by individuals inside and outside of the Bank to anonymously report concerns or suspicions of fraud or misconduct. Details can be found on the Bank's intranet and internet site (www.ebrd.com/about/integrity/compl/hotline.htm), as well in Annex 1 of this Report. The Bank's preferred methods for reporting concerns or suspicions are the sending of emails to the Compliance inbox (compliance@ebrd.com) or by directly contacting the relevant Bank staff.

The Bank's Internal Audit Department is responsible for developing audit procedures and programmes that are designed to evaluate the adequacy and effectiveness of controls that deter, detect and address fraud and corruption, as well as misconduct of Bank staff and experts performing missions for the Bank.

The Bank's Evaluation Department assesses the performance of completed projects and programmes through the systematic analysis of its outputs or outcomes against expected or planned results, and the evaluation of categories of operations and patterns of experience. As part of this process, the Evaluation Department examines whether there has been any malfeasance detected within the project. The Evaluation Department selects at least 60 per cent of the Bank's projects for evaluation.

The Procurement Department of the Bank is responsible for ensuring that tendering and contracting under the Bank's operations fully comply with the EBRD's Procurement Policies and Rules. As part of this function, the Procurement Department initiates and manages independent procurement reviews which include reviewing indications of the occurrence of a prohibited practice.

The Corporate Procurement Department is responsible for ensuring that the purchase of all goods, services and works required for the satisfactory operation of the Bank's Headquarters and Resident Offices is handled transparently and efficiently, and in compliance.

In addition to the detection methods, the Bank has a Whistleblower Protection Mechanism, which facilitates the disclosure of concerns or suspicions of misconduct, fraud or corruption. The Whistleblower Protection Mechanism requires that Bank staff report any suspicion of misconduct to the Chief Compliance Officer. The Bank has an obligation to protect its employees who comply in good faith with their obligation to report from acts of reprisal or retaliation by anyone within the Bank.

5. Investigating fraud and corruption

External investigations and sanctions

In May 2007 the Bank adopted harmonised definitions of fraudulent and corrupt practices as set out in the document *Uniform Framework for Preventing and Combating Fraud and Corruption*, a 2006 initiative of a Joint IFI Anti-Corruption Task Force comprising the World Bank Group, International Monetary Fund (IMF), European Investment Bank (EIB), EBRD, ADB, AfDB and the IaDB. At that time, and consistent with the recommended elements of the harmonised strategy to combat corruption in the activities and operations of the member institutions, the Bank committed itself to a review of its enforcement mechanism in the area of fraud and corruption, across all sectors of the Bank's operations. After completing that review, in late 2008 the Bank adopted its Enforcement Policy and Procedures (EPPs).

The EPPs set out how the Bank will process allegations of fraud, corruption, collusion or coercion (collectively referred to as "prohibitive practices") in activities and projects financed from the Bank's ordinary capital resources (including the Bank's corporate purchases), Special Funds resources, or from technical assistance funds administered by the Bank, and incorporates the remedies previously afforded the Bank under its Procurement Policies and Rules. The prohibited practice need not have occurred in connection with a procurement exercise but may have occurred during the execution of the Bank project, such as by misappropriation of funds or bribery of officials. The policy and procedures also enable the Bank to take action against individuals or entities that have been found to have engaged in prohibited practices by either a judicial process in a member of the bank or a finding by the enforcement (or similar) mechanism of another international organisation (a third-party finding). The EPPs, which will come into force once an Enforcement Committee is established, provide for a wide range of sanctions that help the relevant entity address deficiencies in its control or compliance function that may have contributed to a prohibited practice and/or to reduce the Bank's risks in carrying out the Bank project with the entity in question.

In conjunction with the drafting of its new EPPs, in 2008 the Bank reviewed its Procurement Policy and Rules (PPRs), having specific regard to the occurrence of prohibited practices in the procurement process.

Even before its EPPs enter into force, the Bank has already proactively engaged with potential counterparties to address governance concerns. In 2008 the Bank worked with two entities (one financial intermediary and one consultancy firm) to enhance their internal compliance programmes. The Bank is pleased with early indications of the positive implementation of its recommendations and expects these entities' enhanced compliance programmes to proceed according to agreed timetables.

Public sector procurement

In 2008 OCCO investigated four allegations of fraud or corruption in its public sector procurement activities under the Bank's PPRs. Three of the allegations were found to be unsubstantiated, while one investigation involving allegations of collusive tendering was referred to a national investigation agency for formal investigation.

Independent Review Mechanism (IRM)

As noted above, a review of the Bank's IRM began in spring 2008. While the review was ongoing, no new IRM complaints were received and the two complaints registered in 2007 were brought to completion, one to a compliance review and the other, a problem-solving initiative.

The compliance review completed in 2008 concerned the issue of whether the Bank had complied with the requirements of its Environmental Policy regarding information disclosure and meaningful public consultation when agreeing to provide a loan to the Vlorë Thermal Power Generation Project (Albania). In 2008 the Bank's external reviewer determined that although the Bank had not fully complied with some of the technical requirements of the Environmental Policy regarding information disclosure and meaningful public consultation, the nature and consequences of this failure constituted only a minor technical violation of the Bank's Environmental Policy rather than a significant material violation of the requirements of that policy. The external reviewer therefore recommended certain changes to the Bank's procedures (and not to the project) to avoid the recurrence of the same or similar failure in the future. The recommendations were largely accepted by the Bank and are currently in the process of being implemented as part and parcel of the Bank's new Environmental and Social Policy that entered into force from 12 November 2008.

The problem-solving initiative completed in 2008 concerned the consequences of the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline on Atskuri village, in the Akhaltsikhe District of Georgia (the affected group). The affected group claimed that it had been denied appropriate compensation for the damages suffered to its plots, dwellings and crops as a result of the construction of the BTC pipeline. The Bank conducted a problem-solving initiative to resolve this matter. The relevant report on this matter was released on 12 August 2008, and proved to be successful in achieving the desired outcome of restoring an effective dialogue between the members of the affected group and BTC/BP as project sponsor. A copy of the Problem-solving Completion Report can be found at www.ebrd.com/about/integrity/irm/register.htm

Internal investigations and sanctions

Bank staff members

During 2008 there were eight new cases of suspected misconduct reported to OCCO under PRISM. Six of these did not proceed past the preliminary assessment stage. Of the two cases that were formally investigated, OCCO recommended that one matter could be dealt with by issuance of an oral reprimand and the other matter warranted charges being raised by the Vice President – Human Resources under the Disciplinary Procedures. This case concerned the conduct of a staff member who had engaged in a private activity that was considered to be in conflict with their responsibilities with the Bank.

6. Outlook

The EBRD has been committed to combating fraud and corruption since it was first established in 1991. Every year as the Bank faces new challenges, it works to enhance its four-step strategy for combating fraud and corruption.

In the year ahead the EBRD will bring into force its new Enforcement Policy and Procedures and will issue amended Procurement Policy and Rules. It will continue to review and amend, as appropriate, its Integrity Due Diligence procedures and guidelines to reflect international best practices.

In addition, the Bank will enhance its training programmes with the rollout of training on Chinese wall guidelines, internal and external training on AML/CFT, nominee directors and on the new PCM.

As the Bank continues to invest in the markets of central Asia and Europe, it remains committed to developing the best strategies for preventing and combating fraud and corruption. Above all, the Bank will take every measure necessary to ensure that integrity and reputation remain at the forefront of all minds in, and connected to, the Bank.

7. Contact details

Questions regarding this report should be addressed to:

The Office of the Chief Compliance Officer
European Bank for Reconstruction and Development
One Exchange Square
LONDON EC2A 2JN
Telephone: +44 (0)20 7338 6944/7487
Fax: +44 (0)20 7338 7633
Email: compliance@ebrd.com

Annex 1 – Hotline details

Hotline procedure and contact details

The Hotline is accessible from all countries. It is operated by an independent contractor under the strictest confidentiality, and calls will not be recorded. Calls are answered in English by trained specialists. Interpreters are available. The report form serves as a guide to the kind of information that will be requested of you when you contact the Hotline.

From the United States and Canada

From the US and Canada, dial **+1 866 299 7404**. The call is free of charge.

From all other countries

Callers from countries other than the US and Canada must first dial the AT&T operator in their country for the call to be put through free of charge. The list of AT&T access codes is available at www.att.com/traveler.

For the EBRD's countries of operations and the United Kingdom, the access codes are:

Albania: 00 800 0010	FYR Macedonia: 00 800 4288
Armenia: 0 800 10 111	Moldova ¹ : na
Azerbaijan ¹ : na	Poland: 0 0 800 111 1111
Belarus: 8^800101	Romania: 0808 03 4288
Bosnia: 00 800 0010	Russia: 755 5042 (from Moscow) 8^ 10 800 110 1011 (from other cities) 8^ 10 800 120 1011 (from other cities)
Bulgaria: 00 800 0010	Croatia: 0800 22 0 111
Slovak Republic: 0 800 000 101	Czech Republic: 00 800 222 55288
Slovenia ¹ : na	Estonia: 800 12001
Tajikistan ¹ : na	Georgia ¹ : na
Turkmenistan ¹ : na	Hungary: 06 800 011 11
Ukraine: 8^100 11	Kazakhstan: 8^800 121 4321
United Kingdom: 0 800-89-0011 0 500 89 0011	Kyrgyz Republic ¹ : na
Uzbekistan: 8^641 744 00 10 (from Tashkent)	Latvia: 8000 2288
Lithuania ¹ : na	Montenegro ¹ : na
Serbia ¹ : na	Mongolia ¹ : na
^ denotes second dial tone	
¹ There are no AT&T access codes for Azerbaijan, Georgia, Kyrgyz Republic, Lithuania, Moldova, Mongolia, Montenegro, Serbia, Slovenia, Tajikistan and Turkmenistan.	

Step-by-step calling instructions

First check that the phone you are using can handle international calls. In certain countries you will be required to pay a minimum charge for local calls to connect to the access number.

1. Enter the AT&T access number for the country from where you are calling.
2. When you hear the voice message, or series of tones, enter the Hotline number: **866-299-7404**. (Do **not** press 1 or 0 before dialling this telephone number).
3. Your call will be connected to the EBRD Compliance Hotline.

If you do not speak English, or prefer to have an interpreter assist you during the call, immediately inform the Hotline specialist which language you speak, if possible in English. You will hear pre-recorded music as the specialist calls an interpreter. Do not hang up. You will then hear a recorded message in your language to confirm that an interpreter will come online shortly. An interpreter will join your conversation to assist you in completing the call.

Calling collect

There is also an international number which will accept collect calls. This number is available from most countries through the international operator. It is **+1- 704-731-7258**. When using this service, you will be asked to identify yourself. If you do not wish to give your name, you may say “EBRD caller”.