

Anti-corruption Report - update

For the period ending 31 December 2007



European Bank
for Reconstruction and Development

Message from the President

The European Bank for Reconstruction and Development (“EBRD”) published its first Anti-Corruption Report in November 2006. In the period following that publication, the EBRD has continued its efforts to strengthen its approach to combating fraud and corruption. At the same time, it has also continued to fulfil its commitment to promote integrity and corporate governance through the projects that it finances. This Update, covering the period from November 2006 to December 2007, describes those efforts and looks briefly ahead to those initiatives to be pursued in the coming year.



The EBRD’s mandate to foster the transition to market economies in the countries in which it operates, as well as its position as the single largest investor in the region, have driven the Bank’s anti-corruption efforts and have facilitated its role as a champion of better corporate governance standards. The strategy of the EBRD has traditionally emphasised preventive measures while ensuring that the Bank has the ability and capacity to detect, investigate, and sanction, where appropriate, instances of fraud or corruption in its project financing activities, public sector procurement, or on the part of its staff responsible to uphold the Bank’s ethical standards of conduct.

In 2007, the EBRD complied with its commitment to the International Financial Institutions’ Task Force Initiative to harmonise anti-corruption strategies across the multilateral development banks by formally adopting the agreed set of definitions for corrupt, fraudulent, coercive and collusive practices. These definitions are now incorporated in the Bank’s Procurement Policies and Rules as well as in all of its standard legal documentation. At the same time, there has been a tightening of the Bank’s already rigorous integrity due diligence procedures to ensure that transactions involving higher risks are subjected to enhanced scrutiny before any decision to invest is taken. There has also been a notable decrease in the number of allegations of misconduct relating to members of EBRD staff, from the relatively small number of 12 to 4 in this period. This welcome decline can be attributed in large measure to the increased awareness resulting from the Bank’s mandatory ethical training courses.

Finally, I am persuaded that cooperation with other international organisations, as well as with NGOs promoting anti-corruption measures, is critical to realising the common goal of eliminating the corrosive effects of corruption which hamper our combined efforts to promote sustainable economic growth and development in our respective regions. I am committed to ensuring that EBRD continues to play its part in this international endeavour.

Thomas Mirow
President

About the European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development was established in 1991 when communism was crumbling in central and eastern Europe and ex-soviet countries needed support to nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to help build market economies and democracies in countries from central Europe to central Asia.

The EBRD is the largest single investor in the region and mobilises significant foreign direct investment beyond its own financing. It is owned by 61 countries and two intergovernmental institutions. But despite its public sector shareholders, it invests mainly in private enterprises, usually together with commercial partners.

It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and 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 mandate of the EBRD stipulates that it must only work in countries that are committed to democratic principles. Respect for the environment is part of the strong corporate governance attached to all EBRD investments.

Every EBRD investment must

- Help move a country closer to a full market economy: The transition impact
- Take risk that supports private investors, especially in areas that may not otherwise be financed: Additionality.
- Apply sound banking principles: Encourage transparency

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
- Adoption of strong corporate governance, including anti-corruption measures

Functioning as a catalyst of change, the EBRD

- Promotes co-financing and foreign direct investment
- Mobilises domestic capital
- Provides technical assistance

1. Introduction

In November 2006, the European Bank for Reconstruction and Development (“EBRD”) published the EBRD Anti-Corruption Report, which provided an in-depth analysis of the Bank’s rationale and methods for combating fraud and corruption. As the report explained, the Bank is committed to having effective anti-corruption policies and procedures because they are vital to achieving the Bank’s mandate of using investment to foster the transition to market economies and democracies in the Bank’s countries of operations.

The Bank continues to pursue its 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 the changes in the Bank’s operating environment as the transition process progresses, and from lessons learned by evaluating projects and working with other International Financial Institutions (“IFIs”).

As a result, every spring the Bank will be publish an Annual Update to its 2006 Anti-Corruption Report, which will highlight changes made to the Bank’s anti-corruption policies and procedures in the interim period, as well as include updated information on the Bank’s ongoing anti-corruption activities such as the provision of anti-money laundering, counter terrorist financing, and integrity training workshops and seminars.

This is the first Annual Update and it covers the period from November 2006, when the Anti-Corruption Report was published until the end of 2007. Future Updates will typically cover one calendar year. The November 2006 Anti-Corruption Report can be found on the Bank’s website at <http://www.ebrd.com/about/integrity/anticrpt.htm>.

2. The EBRD’s Strategy for Combating Corruption

a. Prevention

i. External Assistance

--- Policy Dialogue and Technical Assistance

As part of the EBRD’s multifaceted approach to combating fraud and corruption, the Bank engages in policy dialogue with, as well as provides technical assistance to, policy makers and businesses in the Bank’s countries of operations. The Bank bases this, in part, on surveys of businesses and households and other analytical work to measure both the scope and the trends of perceptions of corruption in the transition region. Together, these initiatives aim to reduce the incidents of fraud and corruption by strengthening legal and economic institutions and helping to promote good corporate governance and sound business environments.

Two key tools used by the Bank to understand changes in the business environment and peoples’ attitudes toward transition are the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS). The BEEPS was conducted jointly with the World Bank in 1999, 2002, 2004 (in mature market economies) and 2005 and is due to be repeated in 2008; the LiTS, also undertaken in partnership with the World Bank, was conducted in 2006 and is due to be repeated in 2009. The BEEPS is a large and diverse face-to-face survey covering many dimensions of the business environment,

including issues of corruption and corporate governance. It attempts to measure the perceived scale of ‘administrative’ (or petty) corruption as well as ‘grand’ corruption. BEEPS results suggest that on average corruption in the transition region has been declining over the past decade; however, there is considerable variation among countries and in some countries corruption is becoming worse, particularly in the CIS region. The LiTS looks at how individuals perceive corruption in their daily life, both in general terms (has it gotten worse since the start of transition) and more specifically in how it affects their interactions with public service providers. The LiTS found that corruption in most countries is perceived as an even more serious problem today than at the start of transition and that administrative corruption across the region is highest in the public health and educational sectors. The findings of both the BEEPS and LiTS have been used to help shape the Bank’s policy dialogue as well as its operational focus.

In October 2006 and again in October 2007, the Bank published Legal Indicator Surveys (LIS) on concessions and securities markets laws in the Bank’s countries of operations, respectively. The Surveys evaluated the quality of the laws including their compliance with the best international standards, as well as how well the laws work in practice. The Surveys pinpoint the strengths and weaknesses of each country’s respective legislation, furthering the ability of governments to undertake legal reform where necessary. Reforms, such as increasing the power of national regulatory bodies or requiring stricter prospectus disclosure requirements in the securities markets, play a key role in the effort to reduce the likelihood of fraud and corruption. The Surveys also help to attract investment by assessing and publishing the legal risks associated with the particular type of investment.

The EBRD continues to provide technical assistance and to engage in policy dialogue through its Legal Reform Projects. The Legal Reform Projects help to strengthen the rule of law in the Bank’s countries of operations. By helping to create a transparent, investor-friendly and predictable legal environment, the Bank promotes a vibrant market-economy which serves to reduce fraud and corruption taking place in its countries of operations. During the reporting period the Bank concluded projects on anti-money laundering legislation in Tajikistan, remittances in the Republic of Serbia, and concession law, network infrastructure regulation and regulatory telecommunications development in Kazakhstan.

--- Strengthening Corporate Governance

In addition to requiring the Bank to combat fraud and corruption, the Bank also takes measures to ensure that Bank funds are not being illegitimately diverted from their intended purposes. The Bank’s requirement that investee companies adhere to good corporate governance practices provides a positive demonstration effect and results in other companies adopting better corporate governance standards.

The Bank promotes good corporate governance at all stages of the project. Before engaging with a potential client, the Bank’s due diligence exercise ensures that the proposed counterparty is committed to, and can demonstrate, sound integrity and corporate governance practices. Depending on the terms and conditions of its investment, the Bank can have an impact on the internal structure and operation of the enterprise and performs periodic assessments to ensure compliance with the agreed conditions. Where concerns arise, the Bank will require action plans, compliance programs or the engagement of the services of external compliance monitors.

Another method that the Bank uses to strengthen the corporate governance practices of its investee companies is to appoint Nominee Directors to its supervisory or advisory Boards. During the reporting period, the Bank appointed 104 new Nominee Directors to the Boards of its investee companies. The new directors work in 21 of the Bank's countries of operations and provide on-site guidance and advice on corporate governance matters to the Bank's investee companies. In addition, the Bank ran two training workshops for the new Nominee Directors on corporate governance topics such as corporate governance frameworks, legal and policy issues, and the characteristics of successful Boards and effective non-Executive Directors.

Furthermore, the Bank promotes the broader aspects of corporate governance by strengthening the legal and regulatory environments in its countries of operations. In addition to ongoing policy dialogue and technical assistance projects, in 2007 the EBRD and the Organisation for Economic Co-operation and Development ("OECD") set up a task force mandated to analyse the situation relative to corporate governance of banks in Eurasia. Intended to support policy makers, banking supervisors, capital markets regulators, banks and banking associations, the Task Force has developed a policy brief identifying key corporate governance challenges affecting banks in that region and making recommendations as to how to address them.

In addition to the foregoing, in early 2007, the Bank undertook a Corporate Governance Sector Update in relation to the assessment of corporate governance legislation done in its countries of operations in 2003- 2004. The assessment was to benchmark the legal development in each country against the OECD Principles of Corporate Governance and to provide a clear analysis of gaps in each country's existing legislative framework, as well as an indication of future legal reform needs.

--- International Co-operation

The Bank continues to play an active role in the international fight against corruption. In 2007, the EBRD became an observer to the Eurasian Group ("EAG") on Combating Money Laundering and Terrorist Financing, a regional Financial Action Task Force style policy-making body, whose mandate is to research, provide technical assistance, and create 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 being countries in which the Bank operates, observer status is important because it will provide the Bank with first-hand information that will help tailor the Bank's policy dialogue and provision of technical assistance to those States.

At the Financial Action Task Force meetings, the EBRD's Office of the Chief Compliance Officer ("OCCO") provides regular updates on EBRD anti-money laundering and counter terrorist financing activities. The office also presents an annual oral report to Moneyval, the anti-money laundering compliance body for the Council of Europe countries that makes assessments of the adequacy of money laundering legislation and regulation in almost all of the Bank's countries of operations.

During the reporting period, the Bank also attended a meeting of the Wolfsberg Group, which develops and promotes financial services industry standards, and related products for know your customer, anti-money laundering and counter terrorist financing policies. The standards

set in these areas by the Wolfsberg Group, an association of twelve privately owned, commercial and global banks is highly relevant to the EBRD as the EBRD is heavily focused on private sector activities.

International Co-operation

In the fight against corruption, the EBRD works with, or supports, the efforts of the:
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| <ul style="list-style-type: none">• Council of Europe• Eurasian Group on combating money laundering and financing of terrorism• Extractive Industries Transparency Initiative• Financial Action Task Force• 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 |
|--|

ii. Internal Prevention

--- Institutional Controls

The Bank's commitment to combating fraud and corruption in its operations and ensuring that it adheres to the highest standards of integrity has led to increased responsibilities for the Office of the Chief Compliance Officer (OCCO), which is the Bank's Department responsible for overseeing and co-ordinating the Bank's codes of conduct, integrity, anti-money laundering and counter terrorist financing policies and procedures. As a result, OCCO has expanded from a full time staff of seven to nine positions.

Firstly, in response to the increased demand for integrity due diligence transaction advice, OCCO has increased its staff of compliance managers from three to four. In addition to providing transactional advice, it is intended that the new Principal Compliance Manager will also be responsible for promoting and developing the Bank's integrity, good governance, anti-money laundering and counter terrorist financing training programs.

In addition, OCCO has created the position of Senior Investigations Manager. The Senior Investigations Manager will assist in any investigation and resolution of 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 will also work on the development of related policies and procedures, and on the introduction of a new case management database.

--- Integrity Due Diligence

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. Initial responsibility for the exercise lies with the relevant banking team and involves the completion of a comprehensive integrity red flags checklist. Findings and conclusions are then discussed with the appropriate members of the Bank's Credit Department (forming part of the Bank Risk Management Vice Presidency) and, where the integrity concerns are significant they are brought to the attention of OCCO. During the reporting period, OCCO's involvement in

providing integrity advice, and monitoring the implementation of integrity due diligence checklists increased consistent with the shift in the Bank's focus to those of its recipient countries furthest east and south.

Between November 1, 2006 and December 31, 2007, the number of transaction advice provided by OCCO was approximately 319, representing roughly 192 distinct projects, double the amount of advice it had provided in 2005 and 2006, respectively. The rise in integrity due diligence transaction queries from the Banking and Credit Departments is due to the fact that the Bank is increasingly engaging in complex transactions involving regions, areas and parties that potentially pose greater reputational and integrity concerns to the Bank.

The Bank takes reputational and integrity concerns seriously and during the reporting period, a number of potential transactions were rejected on grounds that the projects or borrowers or sponsors did not meet the integrity/ethical standards required by the Bank. Equally, the Bank has responded firmly in the few instances where reports of fraud and corruption have occurred in projects in which the Bank had already invested. The Bank's response in these circumstances has included requirements that targeted adherence to robust anti-corruption and compliance programmes. Where improvements could not be achieved, the Bank decided to divest its engagement.

In addition to providing transaction advice, on a quarterly basis OCCO reviews the implementation of the Integrity Due Diligence Checklist, which includes the Anti-Money Laundering Red Flags Checklist for all Financial Intermediary Projects. Of the total transactions to pass the Final Review stage during the reporting period, 96% completed the Integrity Due Diligence Checklist. Furthermore, in order to ensure the quality of those results, OCCO performed a comprehensive review of approximately 25% of all the projects. Of those, 96% showed that the requisite level of information was properly disclosed and minor discrepancies were not found to pose a material risk to the Bank.

Correspondingly, during the reporting period, the Bank has increased the number of integrity investigative firms with which it works to assess integrity and reputational issues. These firms probe the activities of potential clients and firms to reveal information not readily available to the Bank and that the Bank needs in order to determine if and under what terms the Bank should engage with the prospective partner.

In addition to the foregoing, the EBRD enhanced its integrity due diligence guidelines and procedures to better respond to the particular issues and risks associated with politically exposed persons ("PEP"), high-risk clients and transactions in higher risk sectors. The new guidelines and procedures establish a more rigorous transaction approval process including mandatory referral of those projects to OCCO at the earliest stage of project development, and clearly define the groups of people and types of transactions to which they apply. The enhanced procedures not only require enhanced due diligence, referral to and clearance of the project by OCCO, but also approval by senior management to establish a business relationship with that entity. The new definitions can be found in the boxes below.

Politically Exposed Persons

“Politically exposed persons (PEPs) means natural persons who are or have been entrusted with prominent public functions and immediate family members, or persons known to be close associates, of such persons. Examples of such persons include, but are not limited to, central and local government officials, members of parliaments, senior executives of state owned enterprises, senior government, judicial or military officials, important political party officials, and people with similar functions in international or supranational organizations.

High-Risk Clients

High-risk clients should be those that the Bank determines to be persons known or suspected to have acquired assets or amassed wealth generally through non-transparent processes and who are perceived to have used their close political connections to unfairly benefit their business interests. Often, the acquisition of assets occurred in the context of privatisations and it is important to assess the time elapsed as well as the business profile since that period.

Higher Risk Sectors

Certain sectors are highly vulnerable to corrupt practices especially those in the extractive industries (for example, oil or mining) which rely on licenses or permits being obtained from government authorities.

--- Anti-Money Laundering and Combating Terrorist Financing

The EBRD conducts Anti-Money Laundering and Counter Terrorist Financing 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 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. During the reporting period, the Bank conducted 17 courses at the Bank’s headquarters in London, as well as one training session in the Bank’s regional office in Warsaw. In addition, staff members received anti-money laundering and counter terrorist financing training at a team retreat in Moscow, which addressed anti-money laundering and counter terrorist financing issues specific to projects and investments in the region.

Externally, the Bank, with the assistance of donor funds and external organizers, hosted eight Anti-Money Laundering and Counter Terrorist Financing training seminars for senior compliance officers / anti-money laundering officers of various local banks with which the Bank works in its region, representatives of the national Financial Intelligence Unit and/or of the banking regulator and /or of the Law Enforcement agency responsible for Money Laundering to inform them of the latest anti-money laundering techniques, as well as terrorist financing topics such as the supervision of financial institutions, cyber crime and cyber laundering.

--- Combating Fraud and Corruption in Bank Operations

The EBRD’s efforts to combat fraud and corruption in Bank operations were strengthened in 2007 as a result of its work with the other IFI members of the Joint IFI Anti-Corruption Task

Force¹ who signed the Uniform Framework for Preventing and Combating Fraud and Corruption in the preceding year. The Uniform Framework can be found on the Bank's website at <http://www.ebrd.com/about/integrity/anticrpt.htm>.

In 2007, the Anti-Corruption Task Force, along with the EBRD, developed harmonized definitions of corrupt, fraudulent, coercive and collusive practices. The new definitions are common to all of the IFIs participating in the Anti-Corruption Task Force and are expected to facilitate cooperation among member institutions and to improve the effectiveness of their joint and individual efforts in combating fraud and corruption.

The new definitions apply to prohibited practices on the part of any person in the public or private sector, rather than limiting the practices to public officials. Similarly, the definitions of fraudulent and collusive practices now apply to a broad range of activities, instead of only applying to a few specifically listed activities. For example, fraudulent practices were previously limited to influencing the procurement process or the execution of a contract, but may now occur whenever a party tries to obtain a financial benefit or to avoid an obligation. In addition, the definition of a fraudulent practice was clarified to include express reference to the terms 'knowingly' and 'recklessly' so as to avoid any possible inference that actions committed through mere negligence could constitute fraud.

In May 2007, the Bank adopted the harmonized definitions of corrupt, fraudulent, coercive and collusive practices throughout its private and public sector activities and on the same occasion, amended paragraph 2.9 of the Bank's Procurement Policies and Rules (PP&R) dealing with fraud and corruption to incorporate the new definitions.² As from November 2007, the Bank has amended all of its standard legal documentation to reflect the harmonized definitions.

Along with the harmonized definitions, the EBRD and the International Finance Corporation, the private sector arm of the World Bank Group, have developed a consistent set of Anti-Corruption Guidelines which clarifies how the definitions will be implemented in the Banks' private sector activities. The *Definitions and Guidelines for Private Sector Operations (Fraud and Corruption)* are posted on the Bank's website and have been incorporated into the Bank's public and private sector template agreements.

Furthermore, as part of the Uniform Framework, the members of the Anti-Corruption Task Force agreed that firms bidding for an IFI-financed contract or seeking IFI financing would be expected to disclose sanctions imposed on them by another IFI. The Bank has now included the requirement of self-declaration in all of its template tender documents.

The Uniform Framework also provided that member institutions will explore further how the compliance and enforcement actions taken by one institution can be supported by the others. In this regard the EBRD is well ahead of the Anti-Corruption Task Force. Since 1998, the

¹ The other MDB/IFIs represented in the Task Force were the African Development Bank, the Asian Development Bank, the European Investment Bank, the Inter-American Development Bank Group, the International Monetary Fund and the World Bank Group.

² It is crucial that the PP&R contain clear definitions of corrupt, fraudulent, coercive and collusive practices to ensure that the procurement and execution of public sector contracts observe the highest standards of ethics. In 2007, €2,155 million or 96.5% of the total value of contracts in the public sector resulted from open tendering. In addition to incorporating the new definitions, the Bank's PP&R is currently undergoing a comprehensive review. Please see upcoming issues for more information.

Bank's PP&R, (paragraph 2.9(d)), has provided for cross-debarment where a client or a firm has been found by a judicial process or other official enquiry to have engaged in corrupt or fraudulent practices in a project not financed by the Bank. It is on the basis of this provision that the Bank, in February 2007, declared a potential contractor ineligible to be awarded EBRD financed contracts and published the notice of ineligibility on the Bank's internet site.

Thereafter, in keeping with the Bank's objectives to incentivise companies to address weaknesses in their compliance/anti-corruption systems rather than relying on purely punitive measures, the Bank required, as a condition of re-instating the contractor's eligibility to compete for EBRD contracts, the adoption and implementation of an effective anti-corruption programme. More recently, in recognition of the contractor's cooperation, the Bank has reinstated the firm subject to the company's continued implementation of the agreed programme.

Corrupt Practices
"Corrupt Practice" means the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.
Fraudulent Practices
"Fraudulent Practice" means any action or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial benefit or to avoid an obligation.
Coercive Practices
"Coercive Practice" means impairing or harming, or threatening to impair or harm directly or indirectly, any party or the property of the party to influence improperly the actions of a party.
Collusive Practices
"Collusive Practice" means an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

--- Promoting Internal Ethical Standards

The EBRD remains committed to ensuring that all staff members and Board Officials adhere to the highest standards of integrity. The Bank does this through the administration of the updated Codes of Conduct (2006) which now includes enhanced financial disclosure obligations for staff and Board Officials.

Training on integrity matters is essential in raising awareness of the standards of conduct expected by all associated with the Bank. During the reporting period, OCCO provided its Integrity Matters! training course to over 300 staff members and 33 Board Officials, including staff from the regional offices. The course is part of the Bank's orientation program and ensures that all staff members are aware of, and adhere to, the Bank's updated Codes of Conduct and are able to identify integrity issues and have the skills to make integrity related decisions soundly from the earliest possible opportunity.

b. Detection

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

Firstly, the Bank has a well-publicised toll-free hot-line, 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 (<http://www.ebrd.com/about/integrity/compl/hotline.htm>), as well in Annex 1 of this Report. Notwithstanding, the preferred methods for reporting concerns or suspicions remain the sending of emails to the Compliance Inbox and directly contacting relevant Bank staff.

In addition to having a variety of 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 suspicions 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.

c. Investigation and Sanction

i. Internal Investigations and Sanctions

--- Staff Members

Once in receipt of a report of a suspicion of misconduct on the part of a staff member, OCCO investigates the matter following the *Procedures for Reporting and Investigating Suspected Misconduct* ("PRISM") and, to the extent that the specific misconduct appears to be substantiated, OCCO's findings are referred to the Vice President of Human Resources and Administration to be dealt with under the *Disciplinary Procedures* ("DP"). During the reporting period, there were four new cases of suspected misconduct. One case did not proceed past the preliminary assessment stage. Of the three cases that were investigated, OCCO recommended that the charges be dropped in two cases and that charges be raised under the DP in one case concerning the conduct of business activities by a staff member whilst on long term medical leave.

Staff Misconduct

- Between November 1, 2006 and December 31, 2007, OCCO dealt with 4 new cases of alleged misconduct.
- 1 new case did not proceed beyond a Preliminary Assessment.
- 3 new cases were investigated.
- 1 investigation resulted in a recommendation by the CCO that the case should be dealt with under the Bank's *Disciplinary Procedures*.
- 2 investigations resulted in recommendations by the CCO that the case not proceed further.

Although not dealing exclusively with disciplinary matters, it is worth noting that in 2007, the Grievance and Appeals Procedures underwent a complete overhaul and ultimately were split into two procedures, the Grievance Procedures and Appeals Procedures. The new Grievance Procedures introduced mediation and changed the powers of the grievance committee; the Appeals Procedures established a new administrative tribunal comprised

of a panel of five judges who are appointed by the President, following consultation with the Board. The PRISM and DPs are expected to be reviewed in 2008.

ii. External Investigations and Sanctions

--- Public Sector Procurement

Allegations of corruption under paragraph 2.9 of the PP&R are investigated by OCCO. In the reporting period, OCCO investigated four allegations of fraud or corruption in its public sector procurement activities. All allegations were investigated and found to be unsubstantiated.

The procedure for investigating and deciding on sanctions in cases of fraud and corruption in the public sector is currently under review as part of the Bank's consideration of a unified enforcement mechanism that would address both allegations of prohibited practices in its private sector operations as well as in cases involving public procurement.

--- An Enhanced Enforcement Mechanism

Presently, the Bank's formal enforcement mechanism, which includes debarment as a possible sanction, remains limited to public sector procurement only, as noted above. While there is no comparable formal mechanism for private sector transactions, the Bank's policy is to respond firmly in all instances where fraud and corruption might arise. The Bank's response is to focus on requirements that target adherence to anti-corruption and compliance programmes which can strengthen a company's capacity to resist corruption. The Bank is currently considering the adoption of an enforcement mechanism which would continue to emphasise positive change but which would also envisage sanctions, where appropriate, in order to create an additional incentive for companies to comply with these corporate governance initiatives.

2. Outlook

The EBRD has been committed to combating fraud and corruption in its operations and in its countries of operations since the Bank 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 2008, the Bank will continue to improve upon the developments mentioned above including the establishment of a mechanism that can address allegations of prohibited practices (including fraud and corruption), as per the harmonized definitions, in the Bank's private sector activities. In addition, the Bank will undertake a comprehensive review of the PP&R, PRISM and DP, as well as of the Bank's procedures to properly manage confidential information and to deal with conflicts of interest that may arise in the context of its business.

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 and to sharing them with the public in future editions of the Annual Update to the Anti-Corruption Report.

3. Contact Details

Questions in respect of 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: 0044 (0)20 7338 6944/7487

Fax: 0044 (0)20 7338 7633

Email: compliance@ebrd.com

Annex 1 – Hot-line 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 United States 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	Macedonia: 00 800 4288
Armenia: 0 800 10 111	Moldova ¹ : n/a
Azerbaijan ¹ : n/a	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
Slovakia: 0 800 000 101	Czech Republic: 00 800 222 55288
Slovenia ¹ : n/a	Estonia: 800 12001
Tajikistan ¹ : n/a	Georgia ¹ : n/a
Turkmenistan ¹ : n/a	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 : n/a
Uzbekistan: 8^641 744 00 10 (from Tashkent)	Latvia: 8000 2288
Lithuania ¹ : n/a	Montenegro ¹ : n/a
Serbia ¹ : n/a	Mongolia ¹ : n/a
^ denotes second dial tone	
¹ There are no AT&T access codes for Azerbaijan, Georgia, the 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 dialing 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 on line 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. This number 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.