This anti-corruption report is the first of its nature to be published by the European Bank for Reconstruction and Development. Although the report emphasises the Bank’s anti-corruption efforts over the period 2005 and 2006, it also draws upon and references the anti-corruption work and initiatives that the institution has undertaken since its inception in 1991. An Anti-corruption Report will be published annually on the Bank’s website.
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Message from President Lemierre

I welcome the publication of this Anti-corruption Report as it provides a comprehensive view of the measures taken by the European Bank for Reconstruction and Development ("EBRD" or "Bank") to combat corruption and fraud. The EBRD is bound by the terms of the Agreement Establishing the Bank to take these measures in order to prevent its funds from being illegitimately diverted from their intended purposes. However, as a major investor in enterprises and financial institutions domiciled in its countries of operation, the EBRD also seeks to promote integrity and corporate governance reforms primarily through the projects that it finances. Such reforms are consistent with the Bank’s mandate to foster transition and to apply sound banking principles in all of its financial operations. By insisting on high integrity and corporate governance standards, the Bank protects its reputation and assists the transition towards open, market-oriented economies.

In many of the countries where the EBRD operates, this transition to market economies, often accompanied by wide-scale privatisation, has taken place in environments characterised by weak institutions, corruption, and public malfeasance. High standards of public and corporate governance have not taken firm root in some of these countries. The EBRD recognises this problem and in pursuing its mandate, seeks to become a driver of change and improvement.

Corruption is endemic in many countries, but its corrosive effects are felt keenly in fledgling states with weak institutions where it undermines the rule of law and hampers economic growth and development. Corruption also threatens the goals of international organisations and other institutions and agencies that have been established to fight poverty and promote sustainable economic welfare. I believe that to tackle corruption successfully, it is necessary to see it as a global phenomenon, which requires a solution based upon international collaboration and co-ordination. This is why in February of this year I undertook, along with the Presidents of the other international financial institutions, to harmonise our respective approaches to combating corrupt and fraudulent practices within our operations.

Tackling such a pervasive problem as corruption requires first and foremost that all members of the institution are themselves above reproach. EBRD staff members are responsible, and held accountable, for ensuring the Bank’s integrity and reputation. To help them fulfil this responsibility, all staff members, as well as members of the EBRD’s Board of Directors, are committed to undergo an integrity training course designed to heighten their awareness of integrity issues and to provide them with guidance if and when they confront difficult situations. The EBRD will continue in these endeavours; however like all institutions it should be prepared to respond
swiftly and with flexibility to new and emerging risks. I am confident that we have the
determination and the skills to rise to this challenge.

Jean Lemierre
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 27 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 60 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.

Every EBRD investment must

- Help move a country closer to a full market economy: the transition impact
- Take risk that supports private investors and does 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
- 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
Introduction

The emergence of democratic freedoms and the rapidity of economic transformations that were instigated by the political changes in the last decade of the 20th Century, which saw the demise of communism as a political reality in Central and Eastern Europe, has also inadvertently created opportunities for illicit activity including bribes, kickbacks or payoffs.

The EBRD has had to be attentive to this environment and has developed, over time, a coherent strategy for combating corruption, fraud, money-laundering and other such crimes or practices.

This report is the first of its nature to be published by the EBRD. It describes the initiatives that were put in place early in the Bank’s operation as well as more recent ones that have evolved in response to the Bank’s exposure to risks and its experience in dealing with those risks.

<table>
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<th>Corruption</th>
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<tr>
<td>“Corruption is the abuse of entrusted power for private gain”</td>
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<td>Transparency International</td>
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<th>Effects</th>
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<tr>
<td>“Corruption undermines the prospects for economic investment. Few foreign firms wish to invest in societies where there is an additional level of taxation”</td>
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<td>United Nations Global Compact Against Corruption</td>
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The EBRD’s constituent treaty requires it to “take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank, or any equity investment, are used only for the purposes for which the loan or the equity investment was granted.” As the EBRD is under this duty, disclosure of how it complies with its responsibilities is called for. Accordingly, the EBRD’s objective in publishing this report is to inform its shareholders, other financial institutions, as well as investors and other interested parties of its efforts and strategy to combat corruption and fraud in both its operations and more generally.

The EBRD’s Strategy for Combating Corruption

In the fulfilment of its obligation to take steps to prevent its funds from being diverted from their intended purposes, the EBRD’s strategy encompasses prevention, detection, investigation and sanction.
The EBRD relies primarily on its robust ex ante measures, particularly its integrity due diligence procedures prior to undertaking an investment decision, in order to avoid corruption and fraud in its operations. However, allegations of corruption or fraud, or the detection by the Bank of such, will trigger investigations to determine the veracity of such allegations, which, if substantiated, will have immediate and long-term consequences.

a. Prevention

<table>
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<th>Preventative Measures</th>
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<td>Tackle corruption where it occurs (external assistance)</td>
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<tr>
<td>Guard the integrity of the Bank (internal prevention)</td>
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<tr>
<td>Participate in the global fight against corruption (international co-operation)</td>
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Preventive measures are the first line of defence against corruption or fraud. The EBRD addresses the problem of corruption at its source by assisting its countries of operations in their efforts to tackle corruption (external assistance), while contemporaneously taking steps within the EBRD to guard its integrity (internal prevention) and by harmonising its approach to tackling corruption through global collaboration (international co-operation):

i. External Assistance

In assisting the governments of its countries of operations to combat corruption, the EBRD employs a multifaceted approach, which includes efforts to raise awareness of the problem of corruption, to strengthen the corporate governance structures of its client companies and to engage in institution and capacity building. A key part of the Bank's value-added beyond the financing which it provides to its clients, concerns assistance to help build sound institutional structures and good governance. Even where this is not directly targeted to reduce the incidence of corruption, such work can play an important role in promoting clean government and governance. In public companies, improved processes for financial planning, financial discipline, business planning, and auditing can all create a framework which reduces the scope for corrupt activities. Similarly, strengthening of corporate governance and audit functions in private companies complements other actions designed to minimise corrupt activities.

--- Policy Dialogue and Technical Assistance

The EBRD periodically conducts assessments and surveys which support the publication of studies that touch directly upon the prevalence of corruption within the countries of transition. The EBRD relies on those studies to engage in policy dialogue with governments on ways to address corruption issues.
Between 1999 and 2005, the EBRD undertook in conjunction with the World Bank, three Business Environment and Enterprise Performance Surveys ("BEEPS") that assessed both the quality of the business environments and the extent of corruption within the markets of the countries of operation. Moreover, as part of the EBRD’s ‘early transition country initiative’, it has developed Business Environment Assessments ("BEAs") for each of the eight early transition countries. The BEAs, which are designed to assess the specific challenges of doing business in countries in the early stages of transition towards open market-orientated economies, build on the findings of the BEEPS and address the amplitude of the problems caused by corruption.

Training on implementation of anti-money laundering and counter terrorist financing rules and regulations is an area where EBRD can provide much needed technical assistance in our countries of operation. With financial assistance provided by the Swiss and European Union authorities, the EBRD has carried out over 17 anti-money laundering and counter terrorist financing seminars in 16 of its countries of operations. The seminars, which were open to governmental officials and staff members from financial institutions not all of which are clients of the Bank, have trained over 338 bankers from 254 institutions*. The EBRD intends to run further seminars in 2006 and 2007, which will address issues on a regional basis and which will target commercial banks, financial intelligence units and other entities involved in combating money-laundering and terrorist financing.

Recognising that the rule of law is an essential component in combating corruption, the EBRD has completed three Legal Indicator Surveys ("LIS"). The first survey, which was produced using a case study methodology that differed from the LIS that had been produced in the previous years, was published in 2003 and dealt with secured transactions. The survey considered, within the context of analysing the impact of corruption within the judicial system, the problems faced by creditors seeking to enforce security pledged by debtors. The survey found that in 11 out of 25 of the countries of operations, corruption undermined the effectiveness of the secured transaction operation. In 2004, a similar LIS was conducted that focused on insolvency systems. The survey found that corruption on the part of the judiciary represented an obstacle to the effective functioning of insolvency regimes in some of the countries in which the EBRD operates. The EBRD published in 2006 a third LIS that explored the effects of corruption in the corporate governance systems found in the countries of operations. The publication of this latest LIS led the Bank’s Office of the General Counsel to organise and run on the occasion of the Bank’s 2006 Annual
General Meeting, a roundtable discussion on the theme of corporate governance, which included debate on the effects of corruption.

--- Strengthening Corporate Governance

The EBRD’s guiding principles for corporate governance and good business practices are summarised in its 1997 publication *Sound business standards and corporate practices – A set of guidelines*\(^{vii}\). In this respect, it is also noteworthy that the EBRD forms part of the steering committee that drafted Transparency International’s (“TI’s”) 2003 *Business Principles for Countering Bribery*\(^ {viii} \). Furthermore, the EBRD promotes the Organisation for Economic Co-operation and Development’s (“OECD’s”) Corporate Governance Principles and has worked with the Russian Federal Commission for the Securities Market on the production of a corporate governance code and rating for Russia.

Companies and other commercial enterprises that have adopted and implemented strong corporate governance principles based on such guidelines and international standards, including international accounting standards, pay more heed to conducting their business affairs in an ethical manner, which also means more effective internal controls and less opportunities for corruption or fraud. In order to promote transparency in financial reporting, the EBRD requires *inter alia* its borrowers to prepare financial statements in accordance with accounting standards that are accepted by the Bank and, moreover, it requires that those financial statements are audited independently in accordance with appropriate audit principles.

The EBRD is particularly keen to promote high corporate governance standards in the companies in which it has taken an equity stake, which not only assists transition but has a positive demonstration effect for other companies in the sector and in the country. That is why the EBRD appoints a nominee director, oftentimes a staff member but also using outside consultants, who acts in the best interests of the company and who can provide advice and expertise on corporate governance matters. To date, the EBRD has appointed 148 current nominee directors to companies in which it has invested in 27 countries. Since it began nominating directors to investee companies, the EBRD has provided training to over 130 nominee directors on corporate governance trends and how to avoid conflicts of interest.

--- International Co-operation

Corruption is a global phenomenon that hampers the developmental work of governments and inter-governmental organisations. Effectively addressing this phenomenon calls for a collaborative and coordinated campaign of action. The EBRD actively participates in this campaign by publicly supporting the United Nations Convention Against Corruption (“UNCAC”\(^{vii}\)) and continuing to work with TI, the Financial Action Task Force (“FATF”\(^{ix}\)), the OECD\(^{x}\) and the Council of Europe\(^{xii}\). Moreover, the EBRD is a member of the International Group Against Corruption (“IGAC”\(^{xiii}\)) and co-founded the Multilateral Development Banks Investigator’s Forum.
The most recent major effort in the area of international cooperation has been the creation of the IFITF which was established in February 2006 by the Presidents of the Multilateral Development Banks ("MDBs")\textsuperscript{v}, together with the Presidents of the European Investment Bank ("EIB") and the International Monetary Fund ("IMF"). The purpose of the IFITF was to encourage greater harmonisation among the institutions’ approaches to combating corruption, particularly through greater standardisation of the definitions of fraudulent and corrupt practices that are the basis for investigating and sanctioning wrong-doing in projects financed by the different institutions. Additionally, the IFITF has taken steps to enhance information sharing between the banks and has agreed on guiding principles for analyzing integrity issues relating to their lending and investment decisions. The IFITF also explored ideas on how the IFIs could assist governments within their respective regions in their efforts to improve the detection, investigation and prosecution of fraud and corruption.\textsuperscript{xvi}
("OLAF"). The EBRD hosted this year's annual conference, which focused on anti-corruption and fraud initiatives, such as the establishment of inter-agency investigative task forces, cross-debarment and whistleblowing.

The EBRD has contributed further to international co-operation by taking part in peer reviews of the investigations conducted by other international organisations, as well as assisting OLAF in the training of investigators from the newly joined states of the European Union in the techniques of detecting and investigating corruption and fraud.

ii. **Internal Prevention**

Over a period of time, the EBRD has adopted measures designed to protect the reputation and integrity of the institution and aimed specifically at avoiding corrupt or fraudulent practices or involvement in money-laundering or terrorist financing schemes. Internal control functions such as the internal auditor or the Office of the Chief Compliance Officer ("OCCO") play a key role as do other departments of the Bank that share responsibility for ensuring that the highest levels of ethical standards are maintained in all of the Bank’s operations. The EBRD’s robust integrity due-diligence procedures rely on “red-flags” that serve as early warnings of potential integrity risks and which must be thoroughly addressed prior to any investment decision by the Bank. Conscious of the particular risks associated with procurement, the Bank’s Board of Directors first approved in 1991 and have subsequently revised on five occasions a set of Procurement Policies and Rules ("PP&Rs") which regulate its procurement activities, and which specifically deal **inter alia** with allegations of corrupt or fraudulent practices in public sector procurement. In the same way that the EBRD addresses potential corruption in activities financed by the Bank, it is also mindful that its staff and its Directors are provided with clear, unambiguous rules regulating their behaviour and setting out what it expects in the way of ethical standards. Accordingly, it has recently updated its codes of conduct for members of the Board of Directors, its staff and experts performing missions for the institution.

--- Institutional Controls

The office within the EBRD that is most closely associated with the institution’s anti-corruption efforts is the OCCO. The OCCO is responsible, **inter alia**, for promoting good governance and for ensuring that the highest standards of integrity are applied throughout all of the activities of the EBRD. The OCCO, which is comprised of seven full time staff members, is an integral part of the Bank’s integrity due diligence and anti-money laundering and counterterrorism financing procedures. The OCCO regularly monitors compliance with the requirements imposed on the banking teams to complete integrity and anti-money laundering red flag checklists prior to consideration of investment decisions. It is also responsible for detecting and investigating allegations of corruption or fraud in the EBRD’s activities and for dealing with misconduct on the part of staff members. Moreover, the OCCO administers the EBRD’s codes of conduct, which proscribe certain activities on the part of those who work for the institution, and provides training on such issues as integrity and ethics, anti-money laundering, and the roles and functions of nominee directors.
The Risk Management Vice Presidency, Internal Audit and the Evaluation Department also have significant roles in protecting the integrity and reputation of the Bank. Risk Management is responsible for the independent management of risks arising from the Banking and Treasury portfolios and ensures that integrity/reputational risks are properly identified and assessed. The main objectives of the Internal Audit Department are to provide a continual, independent appraisal of all the main aspects of the EBRD’s activities, with particular emphasis on the key risk areas, including fraud. In July 2005, the EBRD decided that in order to strengthen further the independence of the Evaluation Department, which assesses the performance of completed projects and programmes, the Chief Evaluator should report directly to the institution’s Board of Directors. Recently, the EBRD created a position of Business Group Director for Portfolio Monitoring whose role is to ensure that the EBRD monitors efficiently and effectively the risks in the Bank’s portfolio of existing projects, and to provide early warnings and solutions to identified problems, including events of corruption and fraud.

--- Integrity Due Diligence

The EBRD seeks to work with entities who demonstrate a willingness to implement reforms as the best way of fulfilling its mandate to foster the transition towards open market-oriented economies, while also ensuring that its funds are used only for the purposes intended. Nonetheless, the environments in which the EBRD operates present particular risks against which the Bank must weigh the potential for realising its transition mandate and its obligation to apply sound banking principles. The decision whether to undertake a specific investment calls for an exercise of judgement that relies on sound and reliable information and that is arrived at only after a full and frank discussion of the potential risks has taken place among the decision makers.

This is the process known in the Bank as integrity due diligence where, in each case, the chances of the Bank achieving its integrity objective of promoting ethical business practices and good governance are assessed against the integrity or reputational risks associated with a potential client or sponsor. In principle, the EBRD will only undertake an investment where these risks can be balanced by a reasonable expectation that the project or transaction will make a positive contribution to the transition goal. The transaction will then be structured, and monitored, in a way that minimises, or mitigates, the risks.

Integrity due diligence can be defined as an *ex ante* inquiry by the EBRD into the integrity, past business practices, and corporate governance standards of a prospective client or the client’s close associates, as well as looking at any information that might represent a reputational risk for the Bank, for example, past criminal activities, including allegations of money laundering, corruption, fraud etc., or links to organised
crime. Integrity due diligence therefore acts as an effective pre-engagement filter that protects the EBRD from undue risks to its integrity or reputation.

The EBRD ensures that integrity concerns are seized on at all levels of the investment cycle. Banking teams are obliged from the outset to probe and check prospective deals and clients for matters that might pose risks to the institution. The due diligence undertaken by the banking teams is routinely reviewed by Risk Management to provide independent judgement of its adequacy and conclusions. Significant integrity concerns are brought to the attention of the OCCO and to the EBRD’s Operations Committee for further consideration and decision. If certain integrity questions remain unanswered, then the EBRD will engage one of the investigative firms that it holds on retainer and instruct that firm to inquire further and attempt to obtain the information that is required. In 2005 the EBRD spent €2.3 million on instructing independent investigators, a figure that was up by 35.3% in comparison to the previous year (see graph).

The EBRD recently updated its integrity due diligence guidelines to assist the EBRD’s decision-makers by providing meaningful criteria to be used in assessing potential risks, by increasing transparency so that the rationale of certain decisions is more widely understood, and thereby ensuring greater consistency in decision making. These guidelines, or general principles, rely on the following:

- Adequate “know your customer” procedures to ensure identification of beneficial ownership;
- Close scrutiny of parties that have been convicted of or are under investigation for serious crimes, investigated or sanctioned by a regulatory body or appearing on an internationally recognised sanctions list;
- Close scrutiny of parties involved in civil litigation involving allegations of financial misconduct;
- Close scrutiny of Politically Exposed Persons consistent with the recommendations of the FATF;
- Identification of mitigants and enforcement of covenants that address integrity risks; and
- On-going monitoring of integrity risks through portfolio monitoring.

Part of the EBRD’s due diligence involves evaluating integrity concerns that may arise in transactions that involve off-shore financial jurisdictions. The EBRD normally lends to or invests in companies that are incorporated in the countries of operations where the projects are located. However, in some cases, and most usually for the legitimate avoidance of tax, a vehicle incorporated in a jurisdiction other than the project host country is used to receive or channel finance provided by the EBRD. The use by a prospective client of an ‘off-shore vehicle’ is not an automatic bar to the receipt of financing from the EBRD, unless the vehicle is incorporated in a state that appears on either the OECD List of Uncooperative Tax Havens or the FATF List of Non-cooperative Countries and Territories. If the state in which the off-shore vehicle is incorporated does not appear on either list, then whether the EBRD engages with the prospective client will depend upon the results of its due diligence. The EBRD will not finance a project if an unreasonable use of off-shore vehicles indicates an illegitimate tax purpose.

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<th>Money Laundering</th>
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| "The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source."
| Financial Action Task Force |

--- Anti-Money Laundering and Combating Terrorist Financing

Money laundering is the use of financial systems, such as those operated by banks, to legitimise illegitimate funds; it is the processing of the proceeds of crime in order to disguise or hide the illegal origins of those proceeds. Money laundering therefore provides anonymity to the profits of crime and enables criminals to enjoy those profits without fear of detection and prosecution. Like corruption, money-laundering can undermine economies by destabilising financial systems, especially vulnerable systems in countries in the course of transition towards market-orientated economies. According to the FATF, a grouping of states and organisations that for the past 17 years have led the international fight against money laundering, “there is a damping effect on foreign direct investment when a country’s commercial and financial sectors are perceived to be subject to the control and influence of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment, which is a precondition for lasting economic development”.

As a consequence of its observer status in the FATF and regular participation in its meetings, the EBRD keeps abreast of the implementation of the FATF’s 40
recommendations and 9 special recommendations for combating money-laundering and terrorist financing. In this way, the EBRD takes part in policy analysis and international standard development as concerns anti-money laundering and counter terrorist financing.

In tightening its own anti-money laundering ("AML") procedures, the EBRD introduced in January 2006 a revised AML Red Flag Checklist, which assists the banking teams in assessing the AML and counter-terrorist financing policies and procedures of prospective financial institution clients. If weaknesses and deficiencies are identified, the EBRD will work with the prospective clients to develop mutually agreed action plans and covenants that must be complied with as a condition of the investment. The OCCO conducts a quarterly review to ensure compliance by the banking teams with the obligation to complete the AML checklists and has found practically 100% compliance with the Bank’s AML due diligence procedures.

Additionally, when lending to financial institutions, the EBRD’s standard loan agreement contains an affirmative covenant that requires the borrower to take measures intended to prevent money-laundering and terrorist financing.

In April 2006, the EBRD launched its internal AML and counter-terrorist financing training programme for staff members. By the end of the year, the institution intends that all of its staff members that evaluate and administer the Bank’s projects will have received the training package.

--- Public Sector Procurement

With an average of 30% of its business portfolio in the public sector, the EBRD’s PP&Rs are designed inter alia to prevent corrupt or fraudulent practices in its public sector procurement. It is the Bank’s policy to require that clients observe the “highest standards of ethics” during the procurement and

Effect of Money Laundering

“there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment, which is a precondition for lasting economic development”

Financial Action Task Force

Public Sector Procurement

“It is the Bank’s policy to require that clients (including beneficiaries of Bank loans), as well as tenderers, suppliers, contractors, concessionaires and consultants under Bank-financed contracts, observe the highest standard of ethics during the procurement and execution of such contracts.”

Paragraph 2.9, Procurement Policies and Rules
execution of contracts financed by the EBRD and furthermore to oblige public sector borrowers to adhere to open, competitive tendering with pre-disclosed evaluation criteria. By way of example, open tendering was applied in 2005 to 83.8% of contracts representing 98.4% of the total value of contracts eligible for that procurement method. Apart from reviewing in-country public procurement law, the EBRD reviews ex ante the borrower’s procurement documents to ensure that they meet the standards set by the institution.

In addition, the EBRD’s Procurement Department carries out independent selective reviews of tender evaluation reports for contracts over certain thresholds before recommending the issuance of a formal “no objection” for contract award by the Banking department.

In spite of this policy and necessary safeguards, allegations of fraud or corruption may arise and the Bank has an investigative mechanism and sanctions policy to deal with such allegations. All reported allegations of corruption or fraud are assessed and, if held to be reliable, are investigated by the OCCO. The EBRD’s Procurement and Contracting Committee (“PCC”), reviews the results of any OCCO investigation and if appropriate, would make a recommendation to the EBRD’s Executive Committee to cancel any portion of the EBRD’s financing, together with a recommendation as to whether the entity in question should be excluded, either indefinitely or for a limited period of time, from bidding on future EBRD projects. The Bank’s Executive Committee will decide whether, and what kind of sanction to impose.

In April 2005, the EBRD implemented several new measures to strengthen the oversight of its public sector procurement operations, including placing procurement specialists within most of its major banking teams, carrying out initial assessments of the competence and capacity of implementing agencies to administer procurement and disbursement, delivering procurement training and awareness programmes to all staff involved with public procurement projects, and conducting ad hoc procurement assessments on site after the award of contracts. The Bank has also agreed to include in its standard bidding documents to be revised shortly, a “no bribe pledge” whereby a company seeking to participate in a tender must certify that it has taken steps to ensure that no person acting for it or on its behalf, has engaged in bribery. Additionally, the EBRD has enhanced the independence of the PCC by appointing the Deputy General Counsel of the institution as Chair and by expanding the number of independent members of the committee, including the Bank’s Chief Compliance Officer (“CCO”) and its Head of Operational Risk Management. The PCC reports annually to the Executive Committee on all complaints and cases of fraud and corruption reviewed by the committee during the previous year.

--- Internal Corruption

The Bank is fully aware that while it is working to promote greater transparency and accountability in its countries of operations, as well as high ethical standards and good business practices among its clients and sponsors, it must also ensure that its own staff members are above reproach and in particular are, and are perceived to be, free from any conflicts of interest.
Two new codes of conduct regulating the behaviour of all staff and members of the Board of Directors, were approved by the EBRD in May 2006xix and replace the code that was originally adopted by the institution’s Board of Governors in 1991. Aside from the express requirement to act at all times “honestly and with propriety”, the codes provide clear guidance on how to avoid conflicts of interests as well as procedures for managing conflicts when these cannot be entirely avoided. The codes require expanded financial disclosure on the part of Bank Directors and senior management and also give specific guidance as to what is acceptable in the way of gifts, hospitalities, favours and gratuities. Moreover, the codes include disciplinary procedures that could result in separation from the institution for serious breaches of the codes’ provisions.

**Codes of Conduct**

“The new Codes of Conduct represent and articulate clearly the values, duties and obligations, as well as the ethical standards that the EBRD expects of its officials and staff ... the codes will be unique among other IFIs in that they incorporate a robust enforcement mechanism and detailed procedures for investigating alleged transgressions of the rules of the codes by Directors, the President and Vice Presidents. The new codes will also stand apart in their affirmation of the Bank’s commitment to protect whistleblowers.”

Report of the Board of Directors to the EBRD’s Governors

The EBRD staff members are also bound by the Staff Regulations that stipulate inter alia that staff members must “conduct themselves at all times in a manner befitting their status as employees of an international organisation ... They shall avoid any action ... that may adversely reflect upon their status or on the integrity, independence and impartiality that are required by such status.”

Since 2004, the EBRD has conducted mandatory, Bank-wide ethics training to raise awareness of the importance of integrity and ethical standards and thus to ensure that these standards are an integral part of the culture of the Bank. Approximately 1,150 staff members have taken the ‘Integrity Matters!’ training course, including members of top management and of the Board of Directors. Ten courses were delivered last year, including some in the Bank’s Resident Offices.

An Integrity Matters! electronic refresher course will be implemented in late 2006 or early 2007.
The EBRD requires that all of its staff members take the ‘Integrity Matters!’ training course.
1,150 staff members have completed the course, including top management and members of the Board of Directors.

b. Detection

The EBRD’s efforts to combat corruption depend largely upon its ability to detect it. Facilitating the gathering of information is necessary to effectively combat corruption in the EBRD’s operations. Witnesses or whistleblowers play a key role in reporting incidents of unethical or illegal behaviour and the EBRD has implemented an information gathering structure that facilitates and, in certain circumstances, compels the reporting of cases of corruption, fraud, money-laundering and terrorist financing.

Reporting Misconduct

If a staff member becomes aware of, or receives information regarding, suspected misconduct on the part of an official, staff member or bank expert, it is his duty to report the matter to the Chief Compliance Officer.”

Section 2.01(a) of the Procedures for Reporting and Investigating Suspected Misconduct

i. Hot-line

The EBRD operates a ‘hot-line’, which enables individuals, both in and outside of the institution, to report any concerns or suspicions that they may have confidentially via the use of toll-free telephone numbers or by sending an online report. Details on the hot-line, which is administered by an external contractor, can be found on the EBRD’s internet and intranet sites.xx Despite being well publicised, the hot-line is not the preferred method of reporting as evidence indicates that witnesses prefer to report their concerns either by sending emails directly to the OCCO’s Compliance Inboxxxi or by reporting directly to the staff of the OCCO.

ii. Whistleblower Protection

The EBRD’s whistleblower protection mechanism facilitates the reporting and identification of corruption and other instances of misconduct. The EBRD’s Codes of Conduct (2006), together with its Procedures for Reporting and Investigating Suspected Misconduct (2002) (“PRISM”), require individuals appointed to or working with the EBRD to report in good faith their suspicions of misconduct to the CCO for assessment and possible investigation. The corollary of a ‘duty to report in
good-faith’ is the duty on the EBRD to protect its whistleblowers from internal acts of retaliation or reprisals. The protection thus afforded creates an atmosphere of ‘fear-free disclosure’ and therefore is essential to the detection of misconduct, including corruption. As such, the EBRD treats retaliation against whistleblowers as misconduct and reported instances of such retaliation could result in the dismissal of the staff member found culpable of such conduct. The EBRD’s whistleblower protection mechanism can be found on the institutions web-site and a more detailed version for staff members is located on its intranet site.\footnote{xxii}

\section*{c. Investigation and Sanction}

The OCCO has exclusive jurisdiction to investigate all instances of misconduct on the part of the staff of the institution and contributes to the handling of allegations that may arise against members of the Board of Directors, the President, the Vice Presidents and the Chief Evaluator (internal investigations). The office also plays a key role in the Bank’s response to allegations of fraud or corruption in its operations (external investigations).

\subsection*{i. Internal Investigations}

--- Staff Members

Since the implementation of the PRISM in April 2002, the OCCO has received 45 allegations of misconduct on the part of staff members. Some of those allegations have been serious, although none involved instances of corruption on the part of staff members of the Bank.

\section*{Miscellaneous}

\subsection*{Misconduct}

"Misconduct means an intentional or negligent failure by a staff member to observe the rules of conduct or standards of behaviour prescribed by the Bank."

\textit{Section 1.03(a) of the Procedures for Reporting and Investigating Suspected Misconduct}

Once in receipt of an allegation, the CCO conducts a preliminary assessment of the information to determine whether the allegation warrants further investigation. If it does so warrant, an administrative fact-finding inquiry will follow, the purpose of which is to ascertain the veracity of the allegation. Such inquiries are
intended to assist the EBRD with a determination on whether it wants to continue to employ the staff member and also whether it is necessary to reinforce or strengthen internal controls to prevent a reoccurrence of the misconduct.

As the EBRD defines misconduct broadly, the OCCO has investigated a wide variety of cases, ranging from theft and fraud to bullying and harassment. Between July 2005 and June 2006, the OCCO dealt with 12 new cases of alleged misconduct. Seven of the new cases proceeded beyond a preliminary assessment to a full investigation, with the remainder having been found not to warrant further inquiry.

In cases where the inquiry may reveal possible criminal acts, the EBRD President may authorise the referral of the case to the prosecutorial authorities of *inter alia* the state in which the suspected criminal act took place. Recently, one British staff member suspected of fraud was referred to the City of London Police and was subsequently found guilty of theft and received a suspended prison sentence.

The results of the inquiry conducted by OCCO are submitted to the Vice President, Human Resources and Administration ("VP, HR&A"), who decides, taking account of the OCCO's recommendation, whether to take action under the Disciplinary Procedures ("DPs") against the individual and ultimately whether to impose a disciplinary sanction.

Since the inception in 2002 of the current disciplinary mechanism, the VP, HR&A has terminated the appointment of several staff members for serious misconduct and has imposed a variety of less severe penalties on staff members found culpable of less serious infractions.

Any staff member that has received a disciplinary sanction has the right of appeal under the *Grievance and Appeal Procedures* (2002) ("GAP") to the EBRD’s President and thereafter to the EBRD Administrative Tribunal.
The EBRD’s disciplinary mechanism is currently under review and it is anticipated that 2006 will see revisions made to the PRISM, DPs and the GAP that will ensure that the mechanism remains an effective and efficient but nonetheless fair process for dealing with misconduct on the part of the staff of the institution.

--- Board Members and Senior Management

A similar investigative procedure, as set out in the Bank’s newly adopted codes of conduct, applies in cases of allegations of corruption against a member of the EBRD’s Board of Directors or, for that matter, the President or Vice Presidents. The main differences with the investigative procedure for the staff are that investigations are carried out by an independent external investigator and the decision on culpability and sanctions is not taken by the VP, HR&A but rather by the appropriate authority that has appointed the Director, the President, or the Vice Presidents. This procedure ensures that the obligations applying to Board members and senior management can be effectively enforced.

ii External Investigations

--- Public Sector

Since 2005, the OCCO has had jurisdiction to investigate allegations of corruption or fraud in the EBRD’s public sector procurement activities. To date, the OCCO has received two such allegations, both of which were assessed by the office to be unsubstantiated. All allegations are investigated in accordance with the EBRD Guidelines for Investigating Corruption and Fraud. A preliminary assessment is conducted by OCCO and, if warranted, a fact finding inquiry will be undertaken to determine the veracity of the claim. As part of its inquiry, the OCCO has the authorisation under the EBRD’s standard loan agreements, to inspect the books of any firms or entities awarded a contract financed by the EBRD.

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Fighting High Level Corruption

"We recognize that corrupt practices contribute to the spread of organized crime and terrorism, undermine public trust in government, and destabilize economies. Corruption by holders of public office can deter foreign investment, stifle economic growth and sustainable development, and undermine legal and judicial systems. The net effect of corruption is felt most directly, and disproportionately, by the poor ... Today, we advance our commitment against high level large scale public corruption ..."

G8 Communiqué, St. Petersburg, 16 July 2006

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A written report of OCCO’s findings will be presented to the PCC, which will determine, on a balance of probabilities, whether there is sufficient evidence to warrant a finding of culpability on the part of the firm or entity accused of corruption. If the PCC so finds, it should make a recommendation to the EBRD’s Executive Committee to cancel any portion of its loan that is allocated to the relevant contract or to declare the firm or entity ineligible for further EBRD financing, either permanently
or for a specified period. To date, the PCC has not had cause to find a firm or entity investigated for corruption or fraud culpable of those offences and, as such, the Executive Committee has not been called upon to exercise its powers of sanction.

The EBRD also reserves the right in paragraph 2.9 of its PP&Rs to cancel all or part of any financing that it provides to a client and to declare that client to be ineligible for further financing, if the client has been found culpable of corrupt and fraudulent practices by inter alia the sanctioning bodies of the other MDBs.

Any decision by the Executive Committee to ‘blacklist’ a firm or entity found culpable of corruption would be published on the EBRD’s internet site. Depending on the gravity of the case, the President might also consider referring the allegation of corruption, together with any information obtained as a consequence of the OCCO inquiry, to the relevant prosecutorial authorities for their consideration and action.

--- Private Sector

Currently, allegations of fraud and corruption in the EBRD’s private sector operations will, if substantiated, prompt the EBRD to consider exercising any contractual remedies that might be available under its loan and investment documentation. For the time being, the EBRD’s policies and procedures do not provide for a formal sanctioning process for entities and individuals that have engaged in corrupt and fraudulent practices in the context of the EBRD’s private sector operations. However, if it was established that an entity or individual has engaged in corrupt and fraudulent practices in a private sector project financed by the EBRD and that person or entity was to approach the EBRD again with a new project proposal, the earlier corruption or fraud would either be readily known to EBRD staff, or else would be revealed in the EBRD’s integrity due diligence. The EBRD would not do business with such entity or person.

The EBRD’s participation in the work of the IFITF, together with its commitment to the Task Force’s mandate to harmonise anti-corruption strategies across the MDBs, is shaping the institutions thinking on how best to handle allegations of corruption and fraud in its private sector lending activities. Accordingly, the EBRD is currently exploring whether to adopt a formal sanctioning mechanism for incidents of corruption and fraud in private sector operations, and it is anticipated that the management of the EBRD will present its findings and recommendations on this subject to the institution’s Board in 2007.

Outlook

The EBRD is fully aware of the on-going challenges that it faces to ensure the integrity of its operations. The Bank is committed to fulfilling its responsibilities under the IFITF, as well as implementing an improved disciplinary mechanism for the staff of the institution. Furthermore, the EBRD will strive to meet the challenges of implementing the new codes of conduct, effecting a compliance policy for the OCCO and continuing in its endeavours to provide appropriate anti-money laundering and counter-terrorist financing training across and beyond the institution.
Annex 1

Endnotes

I. Bribery is the bestowing or the promise to bestow a price, reward, gift or favour with a view to perverting the judgement of or influencing the action of a person in a position of trust.

II. A kickback is the return of some of the monies received, usually paid by the payor to the payee as a result of coercion or a secret agreement.


IV. See: http://www.ebrd.com/pubs/list.htm


VIII. See:
http://www.transparency.org/global_priorities/private_sector/business_principles

IX. See: http://www.ebrd.com/new/pressrel/2004/9Dec04

X. See: http://www.fatf-gafi.org

XI. See: http://www.oecd.org

XII. See: e.g., the Group of States against Corruption (“GRECO”) at http://www.greco.coc.int/Default.htm

XIII. See: http://www.igac.net


XV. The MDBs comprise the African Development Bank (“AfDB”), the Asian Development Bank (“ADB”), the EBRD, the Inter American Development Bank (“IADB”) and the World Bank (“WB”).


XVII. See Article 13 (i) & (xiii) of the Agreement Establishing the EBRD.

XVIII. See: http://www.fatf-gafi.org/document/29/0.2340.en_32250379_32235720_33659613_1

XIX. See: http://www.ebrd.com/about/integrity/index.htm

XX. See: http://www.ebrd.com/about/compl/about.htm

XXI. See: compliance@ebrd.com

XXII. See: http://www.ebrd.com/about/strategy/general/whistle.htm
## List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>AiDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BEAs</td>
<td>Business Environment Assessments</td>
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<tr>
<td>BEEP</td>
<td>Business Environment and Enterprise Performance Surveys</td>
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<tr>
<td>CCO</td>
<td>Chief Compliance Officer</td>
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<tr>
<td>DPs</td>
<td>Disciplinary Procedures</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<tr>
<td>EITI</td>
<td>Extractive Industry Transparency Initiative</td>
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<tr>
<td>FATF</td>
<td>Financial Action Task Force</td>
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<tr>
<td>GAP</td>
<td>Grievance and Appeals Procedures</td>
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<tr>
<td>GRECO</td>
<td>Group of States against Corruption</td>
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<tr>
<td>IADB</td>
<td>Inter American Development Bank</td>
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<tr>
<td>IFI</td>
<td>International Financial Institution</td>
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<tr>
<td>IFITF</td>
<td>International Financial Institution Anti-corruption Task Force</td>
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<tr>
<td>IGAC</td>
<td>International Group Against Corruption</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>INTERPOL</td>
<td>International Criminal Police Organisation</td>
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<td>LIS</td>
<td>Legal Indicator Survey</td>
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<tr>
<td>MDBs</td>
<td>Multilateral Development Banks</td>
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<tr>
<td>MDBIF</td>
<td>Multilateral Development Banks Investigators Forum</td>
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<tr>
<td>OCCO</td>
<td>Office of the Chief Compliance Officer</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OLAF</td>
<td>European Fraud Office</td>
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<tr>
<td>PCC</td>
<td>Procurement and Contracting Committee</td>
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<tr>
<td>PRISM</td>
<td>Procedures for Reporting and Investigating Suspected Misconduct</td>
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<tr>
<td>PP&amp;Rs</td>
<td>Procurement Policies and Rules</td>
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<tr>
<td>TI</td>
<td>Transparency International</td>
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<tr>
<td>UNCAC</td>
<td>United Nations Convention Against Corruption</td>
</tr>
<tr>
<td>VP, HR&amp;A</td>
<td>Vice President, Human Resources &amp; Administration</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank Group</td>
</tr>
</tbody>
</table>
The Office of the Chief Compliance Officer

Staff Members

Enery Quinones  Chief Compliance Officer
Lee Marler  Deputy Chief Compliance Officer
Stefano Losi  Senior Compliance Manager
Lievin Tshikali  Compliance Manager
Izabella Raczkowska  Compliance Manager
Joanne Putterford  Senior Administrative Officer
Tina Braithwaite  Senior Secretary

Location

11th Floor
EBRD Headquarters
1 Exchange Square
London EC2A 2JN
UNITED KINGDOM

Contact Details for the OCCO

Telephone: 0044 (0)20 7338 6944/7487
Fax: 0044 (0)20 7338 7633
Email: compliance@ebrd.com

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 operation and the United Kingdom, the access codes are:

<table>
<thead>
<tr>
<th>Country</th>
<th>Access Code</th>
</tr>
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<tbody>
<tr>
<td>Albania</td>
<td>00 800 0010</td>
</tr>
<tr>
<td>Macedonia</td>
<td>99 800 4288</td>
</tr>
<tr>
<td>Armenia</td>
<td>800 111</td>
</tr>
<tr>
<td>Moldova</td>
<td>N/A</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>N/A</td>
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<tr>
<td>Poland</td>
<td>00 800 111 1111</td>
</tr>
<tr>
<td>Belarus</td>
<td>8^800101</td>
</tr>
<tr>
<td>Romania</td>
<td>01 800 4288</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>00 800 0010</td>
</tr>
<tr>
<td>Russia</td>
<td>755 5042 (from Moscow)</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>00 800 0010</td>
</tr>
<tr>
<td>and 325 5042 (from St. Petersburg)</td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>0800 22 0111</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>0800 000 101</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>00 42 000 101</td>
</tr>
<tr>
<td>Slovenia</td>
<td>N/A</td>
</tr>
<tr>
<td>Estonia</td>
<td>0800 1001</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>N/A</td>
</tr>
<tr>
<td>Georgia</td>
<td>8^0288</td>
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<tr>
<td>Turkmenistan</td>
<td>N/A</td>
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<tr>
<td>Hungary</td>
<td>06800 01111</td>
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<tr>
<td>Ukraine</td>
<td>8^100 11</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>8^800 121 4321</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0800-89-0011</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>N/A</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>8^641 74400 10 (from Tashkent)</td>
</tr>
<tr>
<td>Latvia</td>
<td>800 2 288</td>
</tr>
<tr>
<td>Lithuania</td>
<td>8^800 92 800</td>
</tr>
</tbody>
</table>

1 There are no AT&T access codes for Azerbaijan, the Kyrgyz Republic, Moldova, Slovenia, Tajikistan and Turkmenistan.

\[
^\text{denotes second dial tone}
\]

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**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 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*.

Questions in respect of this report should be addressed to the Deputy Chief Compliance Officer at compliance@ebrd.com
EBRD Hotline

Office of the Chief Compliance Officer
One Exchange Square, London EC2A 2JN

Or submit your report online at www.ebrd.com/hotline

Collect Call
+1 704 731 7258