



**European Bank**  
for Reconstruction and Development

# **INTEGRITY AND ANTI-CORRUPTION REPORT 2016**

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# About the EBRD

**The EBRD Integrity and Anti-Corruption Report 2016 summarises the actions that the Bank has taken during the reporting period to confirm that it has conducted its business activities with integrity as well as describes how it has responded to instances of fraud and corruption connected to its activities.**

**EBRD's Office of the Chief Compliance Officer (OCCO) is responsible for protecting the integrity and reputation of the Bank, promoting ethical standards of behaviour and strengthening the Bank's accountability and transparency.**

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## How to report fraud and corruption to the EBRD

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

[www.ebrd.com/integrity-and-compliance.html](http://www.ebrd.com/integrity-and-compliance.html)

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# Abbreviations

<b>ADB</b>	Asian Development Bank	<b>IFIs</b>	International Financial Institutions
<b>AFDB</b>	African Development Bank	<b>IMF</b>	International Monetary Fund
<b>AMEDD</b>	Agreement for the Mutual Enforcement of Debarment Decisions	<b>MDBs</b>	Multilateral development banks
<b>AML</b>	Anti-money laundering	<b>MDHR</b>	Managing Director of HR
<b>BIDD</b>	Business Integrity Due Diligence	<b>ND</b>	Nominee Director
<b>CCO</b>	Chief Compliance Officer	<b>OCCO</b>	Office of the Chief Compliance Officer
<b>CDRPs</b>	Conduct and Disciplinary Rules and Procedures	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>CFT</b>	Countering the financing of terrorism	<b>OGC</b>	Office of the General Counsel
<b>CMS</b>	Case Management System	<b>OL</b>	Operation Leader
<b>EAG</b>	Eurasian Group on Combating Money Laundering and Financing of Terrorism	<b>OLAF</b>	European Anti-Fraud Office
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>OpsCom</b>	Operations Committee
<b>EIB</b>	European Investment Bank	<b>PCM</b>	Project Complaint Mechanism
<b>EPPs</b>	Enforcement Policy and Procedures	<b>PEPs</b>	Politically Exposed Persons
<b>FATF</b>	Financial Action Task Force	<b>RO</b>	Resident Office
<b>FI</b>	Financial institution	<b>RWPs</b>	Harassment-Free and Respectful Workplace Procedures
<b>HR</b>	Human Resources	<b>SEMED</b>	Southern and eastern Mediterranean
<b>IDB</b>	Inter-American Development Bank	<b>SMEs</b>	Small and medium-sized enterprises
<b>IDD</b>	Integrity Due Diligence	<b>VPHR</b>	Vice President and Chief Administrative Officer for HR and Corporate Services
		<b>WBG</b>	World Bank Group

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# Message from the President

In 2016, the EBRD celebrated 25 years of investing in changing lives. We are justly proud of the progress we have made in building open market economies and promoting private and entrepreneurial initiatives over that time. However, our work is not yet done.

In the light of new and evolving challenges, volatile financial markets and political upheavals, the EBRD has re-examined the concept of transition which is at the heart of our mandate. Last year we unveiled what we regard as the six main characteristics of a successful modern economy. In our opinion, our countries of operations need to be: competitive, inclusive, well-governed, green, integrated and resilient.

If our countries are indeed to be well-governed, sustainable and competitive, integrity in both the public and private sectors is absolutely essential. Corruption and misuse of public funds undermine the development of an efficient economy and erode public trust, thereby making transition to the free market much harder. By facilitating good governance and competition across our regions, the EBRD helps ensure that markets and institutions are both resilient and sustainable in the long term.

Through promoting high ethical standards and good governance, the Office of the Chief Compliance Officer (OCCO) plays an essential role in upholding the EBRD's values, both in the projects we finance and in our own internal activities. In 2016, OCCO continued to advance good governance reforms through its core work of strengthening pre-transaction due diligence, enhancing the EBRD's investigative functions, and refining the policies that instil an ethical culture throughout the Bank.

Last year also saw OCCO taking innovative measures above and beyond individual projects in order to support the EBRD's wider vision and strategy. These included, for example, OCCO organising, in selected countries, Anti-Money Laundering and Counter-Terrorism Financing seminars, or, in cooperation with the OECD and the Council of Europe, bringing together law enforcement agencies, civil society and the private sector to discuss how best to address corruption challenges.

OCCO also helps EBRD clients improve their anti-corruption compliance by requiring, where appropriate, that they adopt anti-corruption or compliance action plans as a condition of disbursement. For clients found to have committed prohibited practices, OCCO insists that they make reform a condition of re-engagement.

I remain firmly convinced of the importance of the EBRD's mission and of its potential for promoting positive change in the countries where it invests. As we work with our partners, old and new, we must uphold our values and operate with complete integrity at all times – and thus remain faithful to our mandate and the spirit in which we were created.



**Sir Suma Chakrabarti**  
EBRD President

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# 1. Introduction

**Over its 25-year history, the European Bank for Reconstruction and Development (EBRD) has demonstrated that integrity is an essential component of delivering sustainable transition towards open, market-oriented economies. In 2016, the Bank re-affirmed its commitment to ‘transition with integrity’ by reinvigorating its transition concept to include six qualities that define a successful market economy. One of these qualities, that of being “well governed”, is predicated upon a robust approach to integrity and the challenges of corruption.**

To promote integrity within the Bank and its operations, the Bank has mandated OCCO to set the integrity and ethical standards in relation to the Bank’s investment activities and the conduct of Bank personnel. OCCO is the principal organisational department within the Bank responsible for advising on the EBRD’s approach towards integrity, reputational and corruption risks. The functions of OCCO are independent from operational departments in the EBRD and are headed by a Chief Compliance Officer (CCO) who reports functionally to the EBRD President and has full and free access to the Chair of the Audit Committee.

OCCO ensures that the Bank serves as a role model for good governance by developing integrity policies that meet internationally accepted norms. OCCO develops key integrity policies, delivers related training and provides expert advice to the Bank to assess integrity risks. But OCCO also works to ensure that the Bank, its clients, project sponsors and other stakeholders live by the standards it has set. In cases where Bank personnel and counterparties fail to meet the Bank’s expectations for integrity, OCCO investigates the allegations, recommends sanctions where appropriate and oversees the Bank’s enforcement measures.

OCCO recognises that executing EBRD business with integrity and delivering effective transition requires

enhancements to the business environment in the EBRD countries of operations. Over the past year, OCCO has worked with partners across the Bank and relevant international organisations to advance innovative programmes to enhance business integrity and fight corruption. This move towards proactive engagement on corruption issues has included the development of anti-corruption action and compliance plans for clients and the delivery of a range of trainings and seminars on AML/CFT issues, sessions that were widely attended by both clients and non-clients. In addition, deeper regional specialisation within OCCO has enabled proactive engagement with business-facing project teams and Resident Office staff, as well as early detection and, where possible, mitigation of specific integrity concerns. Additionally, by participating in the development and promotion of anti-corruption initiatives and engaging actively with the work of international bodies such as the FATF, MONEYVAL and the OECD Anti-Corruption Network for Eastern Europe and Central Asia, OCCO assists the EBRD and the international community at large in the creation of a stronger and fairer business environment.

In response to the growing number of requests for guidance and for enforcement on to broader anti-corruption agenda, last year the number of staff in OCCO grew from 19 to 22.

The Integrity and Anti-Corruption Report 2016 explains the work that OCCO has done to promote a culture of ethical business conduct within the Bank, its projects, the IFI community and the region at large. The Report also describes how OCCO has applied and updated its policies and procedures on integrity and anti-corruption during the year ending 31 December 2016.



For more information on the EBRD and its operations, read the Annual Report. [ar-ebrd.com](http://ar-ebrd.com)

## 1.1. OCCO Highlights for 2016

### 1.1.1 Standards and policies

The Policy and Ethics team within OCCO is responsible for developing and recommending the policies, rules, procedures and processes governing the ethical

behaviour of Board Officials, Directors, management and staff of the Bank; for establishing the standards of integrity that the Bank expects of its clients, project sponsors and other counterparties; and for ensuring that

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policies, rules, procedures and processes are effectively communicated and implemented.

The Code of Conduct for Bank Personnel and the Code of Conduct for Board Officials (collectively, the “Codes”) require all staff members and Board Officials to complete an annual disclosure – the Financial Interest Disclosure Statement (FIDS) – eliciting information on key areas of the Codes. In 2016, OCCO significantly improved its code disclosure regime for Board Officials and staff by replacing the existing FIDS form with a more focused Code of Conduct Compliance Statement.

OCCO also continued to provide extensive code-related and policy advice throughout 2016 to staff and Board Officials, responding to over 220 compliance enquiries, issuing advice in over 150 cases and providing 40 authorisations.

Further, in response to the Bank’s increased focus on equity investments and on the development of capital markets in its countries of operations, in 2016 a capital markets compliance function was established within OCCO to provide advice on the distinct policy challenges presented by these engagements.

### 1.1.2 Training

In 2016, OCCO provided training on the EBRD’s integrity and ethical principles (*Integrity Matters!*) to 255 members of staff and to 54 Board Officials. Additionally, OCCO developed an online training module for *Integrity Matters!* to ensure that those staff members who are unable to attend the classroom training at the Bank’s Headquarters receive necessary training in a timely fashion.

Specialist training was provided to 37 Nominee Directors (NDs) on their roles and responsibilities. In addition, OCCO delivered training on Integrity Due Diligence (IDD) to 643 members of staff and organised six external training events in five different countries on AML and CFT issues.

### 1.1.3 Project Integrity

The Project Integrity team is responsible for providing IDD advice in respect the Bank’s prospective projects. In 2016, 435 potential projects were referred to OCCO’s Project Integrity team for guidance as part of the IDD process.

As part of OCCO’s efforts to proactively promote integrity and compliance, Project Integrity increased its engagement with clients by working with them to develop anti-corruption action plans or compliance

plans, with attendant monitoring, for companies where enhancements were required. In addition, the Project Integrity Team deepened the regional focus of its staff members to facilitate a better understanding of the challenges of the business environment in specific countries and with the Resident Offices. Finally, OCCO made further enhancements to the office’s Case Management System (CMS) to manage and track its work and to enhance the information available to management.

### 1.1.4 Investigations

OCCO conducts two types of investigations: investigations of fraud and corruption in relation to Bank- financed activities under the Enforcement Policy and Procedures (EPPs), and investigations of allegations of staff misconduct under the Conduct and Disciplinary Rules and Procedures (CDRPs).

The EPPs were revised in late 2015. Importantly, these changes included the introduction of a mechanism for matters to be resolved by way of a settlement agreement. In 2016, OCCO entered into three Settlement Agreements involving 26 entities. Each agreement required improvements in corporate governance and anti-corruption compliance by the affected entities, thereby emphasising reform within clients that have faced major corruption challenges.

In addition to the three Settlement Agreements, OCCO submitted five cases to the EBRD Enforcement Commissioner requesting enforcement action against 17 entities and 12 individuals. Details are available at [www.ebrd.com/ineligible-entities.html](http://www.ebrd.com/ineligible-entities.html).

In 2016, OCCO received 35 new actionable complaints of misconduct on the part of EBRD staff and carried forward one matter received late in the previous year. This compared to 26 actionable complaints received in the previous year. Thirteen of the investigated complaints in 2016 proceeded to formal investigation under the CDRPs: 10 related to alleged breaches of the Bank’s Code of Conduct and three related to alleged breaches of the Bank’s Policy on Harassment, Sexual Harassment and Abuse of Authority.

Of the 36 matters that were investigated in 2016, 32 were resolved and four were still under investigation at the end of 2016.

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## 2. Standards and policies

The EBRD upholds the highest standards of integrity in all areas of its activity. OCCO is responsible for the development and maintenance of integrity and anti-corruption standards. It helps to identify, assess and monitor integrity risks arising from the failure to comply with those standards and policies. This chapter

provides an overview of the main OCCO policies and procedures that are specifically and directly concerned with integrity and anti-corruption at the EBRD, highlighting where such policies and procedures have been updated or amended.

### 2.1 Integrity Risks Policy

The EBRD's Integrity Risks Policy provides the primary articulation of the Bank's corporate values and principles with respect to the management of its integrity risks.

Among other things, the Integrity Risks Policy identifies and defines the main types of integrity risks with which the Bank is concerned and summarises responsibilities for integrity and ethics in the Bank. The Policy also includes the Terms of Reference (TORs) for OCCO. The Integrity Risks Policy and OCCO TORs were last substantively revised in 2014. However, amendments were made in 2016 in order to reflect certain structural changes within the Bank, as well as modifications to various Bank policies and procedures.

The 2016 amendments to the Integrity Risks Policy and TORs of OCCO, gave the Vice President, Risk and Compliance and Chief Risk Officer administrative oversight of OCCO, except in relation to PCM, where administrative oversight remains with the President. The CC0 continues to report functionally to the President on

all matters and continues to have full and free access to the Chair of the Audit Committee.

Additionally, the Integrity Risks Policy was amended to take into account the newly created position of the Enforcement Commissioner. Under its revised TORs, the CC0 now submits Notices of Debarment Decisions for issuance of Notices of Mutual Enforcement to the Enforcement Commissioner. It also recommends to the Enforcement Commissioner that he enforce the debarment decisions of participating institutions, in accordance with the Agreement for Mutual Enforcement of Debarment Decisions and the Bank's Enforcement Policy and Procedures.

The Integrity Risks Policy and OCCO TORs will undergo a full and substantive review in accordance with the five-year cycle, commencing in 2019.



[Integrity Risks Policy](#)

### 2.2 Codes of Conduct

The EBRD's *Code of Conduct for Officials of the Board of Directors of the EBRD* and *Code of Conduct for EBRD Personnel* are approved by the Bank's Board of Governors and represent and articulate the values, duties, obligations and ethical standards that the EBRD expects of its Board Officials and staff members. Together with the CDRPs, the Codes set out the types of acts or omissions that may be considered as misconduct and the procedures to be followed with respect to investigating and, where appropriate, sanctioning such unethical behaviour. Both Codes were last revised in February 2012 and are due to be substantively reviewed again during the course of 2017. It is anticipated that the review of

both Codes of Conduct will be completed and ready for presentation to the Board of Governors at the Bank's Annual Meeting in 2018.

In preparation for this review, OCCO continues to benchmark certain of its rules against the provisions of fellow multilateral development banks to ensure that the EBRD's approach remains of the highest standard. OCCO's preparatory work also takes into consideration the Bank's own institutional experience and reflections on the effectiveness of the Codes since 2012.

In 2016, OCCO took a step forward in improving its Code of Conduct disclosure regime mandated under Rule 9

of the Codes, by replacing the existing Financial Interest Disclosure Statement (FIDS) Form with a more focused Code of Conduct Compliance Statement, applicable to all prospective and current Bank Personnel and Board Officials. Unlike the FIDS, which required very detailed information that OCCO did not have the ability to challenge or validate, the new Compliance Statement focuses on a few critical questions corresponding to the provisions of the Bank's Codes of Conduct. It is designed to elicit information that could more easily lead to the identification of conflicts of interest and any other non-compliance with the Codes. The new Compliance Statement will serve as an awareness raising

tool to enhance all Board Officials' and Staff Members' knowledge of the content of, and the importance of adherence to, all aspects of the Codes of Conduct. It was successfully rolled out for year-end 2016.

Recognising the importance of ethics and ethical conduct, in 2016, OCCO recruited an ethics specialist to further bolster its work in this area.



[Code of Conduct for Officials of the Board of Directors of the EBRD](#)



[Code of Conduct for EBRD Personnel](#)

### Case Study 2.2.1

Mrs A worked in a non-Banking function at the Bank's HQ and wished to conduct an external activity in her personal capacity and in her private time. To that end, she contacted OCCO to obtain authorisation under Rule 4(a) of the Code of Conduct.

The external activity in question involved a possible appointment, through a competitive selection, as a non-executive board member of a listed fund in one of the Bank's countries of operations.

Upon receipt of her request, OCCO undertook standard due diligence on the fund, including on any potential risks from an integrity and reputational perspective. OCCO also consulted with the heads of the relevant

sectoral and country teams in the Banking Department to identify whether there was a relationship between the Bank and the fund. From such inquiries, OCCO learned that the fund in question was a potential investee in that year's investment pipeline.

OCCO discussed the matter with Mrs. A and explained to her the existing and potential conflicts of interest (both personal and institutional) that could not be mitigated to an acceptable level, in particular those stemming from the possible EBRD investment in the fund and her proposed membership on the board of the very same fund, notwithstanding the fact that such activity was to be conducted in her private capacity. The outside activity was not authorised.

## 2.3 Enforcement Policy and Procedures

The Enforcement Policy and Procedures (EPPs) set out the Bank's policy and procedures for investigating and processing allegations of Prohibited Practices in relation to activities and projects financed, or intended to be financed, from the Bank's ordinary capital resources, Special Funds resources, from cooperation funds or trust funds administered by the Bank.

In 2015, OCCO substantively reviewed the EPPs to better reflect the Bank's zero tolerance approach to fraud and corruption in its projects and to ensure that the Bank's anti-corruption efforts could have the greatest possible deterrent impact. The changes also sought to enhance due process rights for entities and individuals subject to investigation. The revisions built on the Bank's experiences of applying the EPPs since their adoption in 2009 and captured certain innovations introduced by other MDBs in the past two years, following an extensive benchmarking exercise.

In particular, the revised EPPs introduced the role of Enforcement Commissioner, a staff member appointed by the President and organisationally independent from OCCO, as the first step in a new two-tiered, decision-making process. The Enforcement Commissioner was appointed in late 2015 and 2016 was his first full year in that role. In November 2016, he was re-appointed for a further two years. In the course of 2016, OCCO worked closely with the Enforcement Commissioner to bed down the new EPPs and ensure that new procedures were developed for effective processing of debarment cases. OCCO also considered where there were non-substantive process elements of the EPPs that could be improved, once the EPPs were being used in practice. For example, OCCO worked with the Enforcement Commissioner to develop a process for providing constructive notice to subjects in EPP matters where such subjects could not be located.

The second step in the two-tiered, decision-making process sits with a revamped Enforcement Committee, the majority of whose members are external to the Bank. The Enforcement Committee hears appeals arising from the Enforcement Commissioner's decisions and its verdicts are final, without further referral to the President or the Executive Committee, as was the case previously. In 2016, the Enforcement Committee was formally constituted following a competitive selection process. It is made up of two EBRD staff members and three external members, with the Chair being an external member.

The revised EPPs also introduced a negotiated settlement mechanism. This allows cases to be settled with the approval of the Enforcement Commissioner, without resorting to full enforcement proceedings, while at the same time providing for appropriate checks and balances. Previously, OCCO would submit cases for enforcement action but did not have the ability to enter into settlement agreements, despite the parties' desire to do so. The settlement mechanism was designed to help resolve enforcement cases fairly and efficiently and has

been introduced by nearly all MDBs. See Section 5 for a description of the way the settlement provision of the revised EPPs was put into practice during 2016.



#### Enforcement Policy and Procedures (EPPs)

In 2016, OCCO issued a practice note on Settlement Agreements and how these agreements fit within the EBRD's Enforcement Regime, as well as updating the *Prohibited Practice Guidelines for EBRD Operations*, which provides clarification on the meaning and interpretation of the Prohibited Practices in the context of EBRD operations.



#### Prohibited Practice Guidelines for EBRD Operations

Finally, OCCO initiated and worked alongside the Bank's Office of the General Counsel to ensure that the Bank's legal agreement templates contained a consistent presentation of the "Prohibited Practices", "Audit rights" and "Access to information" clauses.

## 2.4 Whistleblower protection

The EBRD has long recognised that whistleblowing is an important tool and is a critical aspect of good governance. The Bank's present Codes of Conduct make it clear that:

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

In 2016, OCCO received two complaints of retaliatory acts for having carried out protected activities. Following a review of the matter, in both cases OCCO determined that the purported retaliatory actions were not acts of "retaliation". However, these Whistleblower matters were important because they alerted OCCO to areas requiring improvement in the Bank's practices and procedures.

During the course of 2017, OCCO will look at enhancing Whistleblower protection through the creation of a standalone Whistleblower Policy.

## 2.5 Conduct and Disciplinary Rules and Procedures

Allegations of staff misconduct are investigated under the *Conduct and Disciplinary Rules and Procedures* (CDRPs). These were revised in 2015 to reflect, among other changes, the division of responsibility between the Chief Compliance Officer (CCO) as fact-finder with regard to complaints of misconduct and the Managing Director of Human Resources (MDHR) as decision-maker with regard to any disciplinary action. Allegations of misconduct on the part of Board Officials on the one

hand, and on the part of the President, Vice Presidents, Chief Evaluator and the CCO on the other, are dealt with in accordance with the provisions of the *Code of Conduct for EBRD Board Officials* or the *Code of Conduct for EBRD Personnel*, respectively.

2015 also saw the creation of the Harassment-Free and Respectful Workplace Procedures (RWPs) which set out processes for dealing with improper interpersonal

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behaviour by Bank staff that may or may not constitute misconduct. Under the new approach to dealing with allegations of such behaviour, in the first instance, staff report any concerns to an HR employee relations officer. The officer undertakes an assessment and communicates his findings to the MDHR, who decides within 15 working days whether the case will be referred to OCCO for further investigation under the CDRPs or dealt with directly by HR and management.

These changes were intended to ensure that the Bank continued to offer staff a safe and respectful working environment, while emphasising HR's role in handling improper behaviour that does not constitute misconduct. At the same time, this was designed to enable OCCO's Investigations team to focus more on staff behaviour that could constitute misconduct and integrity concerns related to Bank projects and counterparties.

The RWPs were complemented by OCCO's creation of a revised Guidance Note on Rule 2 of the Code of Conduct, which more clearly articulated the definitions of Harassment, Sexual Harassment and Abuse of Authority.

## 2.6 Nominee Director Rules and Procedures

In the course of 2016, the EBRD's equity investments gave rise to 64 new board seats, including replacements for outgoing Bank-appointed Nominee Directors (NDs). This brought the total number of board seats held by the Bank to 182. The 64 new board seats entailed the appointment of 36 male (15 internal and 21 external appointees) and 15 female (11 internal and 4 external appointees) NDs, as well as two law firms providing administrative services.

The Bank's amended Rules and Procedures Relating to the Selection and Appointment of EBRD Nominee Directors and members of Equity Fund committees were approved by the Bank's Equity Committee in February 2016. The Rules and Procedures:

- set out the procedures relating to the nomination, selection and approval of NDs (including the requirement for background checks for certain external candidates) and members of equity fund committees (Committee Members) and any required follow-on actions

The revised CDRPs, the RWPs and the revised Guidance Note on Rule 2 of the Code of Conduct all entered into force on 1 January 2016 and, throughout 2016, OCCO worked with HR to ensure their successful implementation.

One of the central aims of the RWPs was to reduce the burden placed upon the OCCO investigations function in having to process reports of improper interpersonal behaviour in the workplace, particularly where such matters may be more appropriately resolved by means other than investigative/disciplinary procedures. In 2016, OCCO opened 35 new matters under the CDRPs, three of which were referred by the MDHR under the RWPs and related to bullying and harassment. This is an appreciable reduction from the 10 cases of alleged bullying and harassment that OCCO investigated in 2015 and the 15 cases investigated in 2014.

Given these results and reflecting back over 2016, OCCO believes that the RWP function has not only played a meaningful role in reducing the number of bullying and harassment cases OCCO is required to process, but has also provided Bank staff with an effective means to resolve incidents of improper behaviour less formally.

- include observers within the definition of NDs and subject them to the same treatment as NDs
- set out the procedures relating to the exercise of ND duties including remuneration, conflicts of interest, involvement of NDs in divestment decisions, maximum number of board seats, reporting obligations and annual assessments.

OCCO has revised various template forms in light of the amended Rules and continues to provide training and guidance on these Rules and the role of NDs more generally.

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## 2.7 Information barriers / capital markets compliance

The Bank's guidelines on information barriers (called Chinese Walls Guidelines) have been in effect since 2008. The guidelines are supported by an e-learning programme available to all staff. This explains the concept of information barriers, the need to protect confidentiality, and the procedures for requesting the creation of information barriers as well as for authorisation to "cross the wall".

In 2016, OCCO created information barriers and/or provided capital markets compliance advice with regard to over 70 different projects, in order to mitigate potential conflicts of interest. Over 50 of these projects involved listed securities and OCCO's advice related to ensuring that the Bank was not investing or divesting whilst in possession of material non-public information.

In response to the Bank's increased focus on listed investments and on the development of capital markets in its countries of operations, in 2016 OCCO continued to work extensively on developing a formal capital

markets compliance function. Specifically, as part of a cross-departmental working group, OCCO focused on enhancing internal practices regarding information barriers, the treatment of confidential information and conflicts of interest. This exercise will form the basis for further work to enhance the existing Bank guidelines and procedures in these areas to ensure they continue to be in line with market practice.

OCCO also delivered a series of training sessions on capital markets compliance issues both to new joiners and existing staff members, covering information barriers and conflicts of interest, with particular focus on the treatment of material non-public information in relation to listed securities.

To bolster its ongoing work in this area, a specialist capital markets compliance professional joined OCCO in 2016.

## 3. Training

To support the previously described policies and standards, OCCO provides extensive training to staff members, Board Officials, NDs and third parties in its

countries of operations. This chapter describes OCCO's training courses delivered during 2016.

### 3.1 Integrity and ND training

OCCO delivers training to staff members and Board Officials on the application of the Codes of Conduct and the ethical standards and principles of the Bank, through the *Integrity Matters!* course. In 2016, this course was delivered to 255 members of staff and to 24 Board Officials. Additionally, OCCO created an online training module for *Integrity Matters!* to provide basic training to those staff members who are unable to attend the classroom training at the Bank's Headquarters.

OCCO also organises and actively participates in the Bank's training programme for NDs, focusing on issues such as corporate governance, the obligations and effectiveness of NDs, the roles of different Board committees and the avoidance of conflicts of interest. These courses are summarised in Table 1 below.

### 3.2 IDD and anti-corruption training for internal staff

In addition to *Integrity Matters!* training for all new joiners, OCCO provides all new and existing project facing staff members with a suite of compulsory training programmes on IDD, anti-corruption and related topics. OCCO designs and delivers these courses, sometimes in conjunction with external trainers and other relevant departments and units within the Bank. It provides additional optional training to enhance relevant staff members' effectiveness.

Over the course of 2016, OCCO delivered IDD and anti-corruption training through 49 sessions held in the EBRD's Headquarters and Resident Offices (ROs), involving 643 Bank staff members. For context, the Bank had 2,375 employees as at 31 December 2016.

OCCO's main internal staff training activities in 2016 in this area are summarised in Table 2 (next page).

Table 1: Integrity and ND training

Course description	Courses held in 2016	Attendees in 2016	Attendees in 2015
<b><i>Integrity Matters!</i> Training for Staff</b> A compulsory training course that all new EBRD staff are required to take within six months of joining the Bank. This course is designed to explain the application of the Code of Conduct and highlights the ethical standards of the Bank that all staff and Board officials are expected to fully understand and adhere to.	10	255	240
<b><i>Integrity Matters!</i> Training for Board Officials</b> As above, for all Board officials.	2	24	11
<b>Training for Nominee Directors</b> All Bank staff and external consultants appointed by the Bank to act as NDs on its behalf are required to participate in this two-day training programme.	3	37	23
<b>Total</b>	<b>15</b>	<b>316</b>	<b>274</b>

Table 2: IDD and anti-corruption training

Course description	Courses held in 2016	Attendees in 2016	Attendees in 2015
<b>Integrity Due Diligence (IDD) and Anti-corruption Training</b> Training provided to all new project-facing staff to educate them on AML/CFT and IDD.	8	165	155
<b>Integrity Due Diligence (IDD) Refresher Course</b> A mandatory course designed to update project-facing staff who previously received IDD training more than three years ago.	22*	251	158
<b>Integrity Due Diligence 2nd Refresher Workshop</b> A second IDD refresher workshop for project-facing staff who attended the IDD refresher course more than three years ago.	12*	131	137
<b>Business Integrity Due Diligence (BIDD)</b> A non-mandatory BIDD course to help project-facing staff of all levels hone their questioning and intelligence-gathering skills in order to obtain as accurate a picture as possible of the integrity status of projects at pre-approval stage.	3	24	20
<b>Banking Academy</b> Training provided to prospective Operation Leaders (OLs). The programme includes a half-day IDD session followed by case study presentations, thus giving prospective OLs valuable practical experience.	4	72	65
<b>Total</b>	<b>49</b>	<b>643</b>	<b>577</b>

\* includes training provided as part of RO visits

### 3.3 Training on AML and CFT for external third parties

The EBRD offers various forms of training on AML and CFT to financial actors in the countries of operations by way of seminars and consultancies. Seminars bring together financial institutions and regulators, so that participants have an opportunity to learn AML/CFT best practices from subject-matter experts using practical case studies. It is also an opportunity for participants to network with professionals in the sector and region. In contrast, consultancies are implemented in selected financial institutions that could benefit from further enhancements to their AML/CFT controls.

In 2015, OCCO committed to increase its training initiatives for external third parties. Therefore, in 2016, OCCO ran six seminars in five different countries of operations: Ukraine, Kyrgyz Republic, Moldova, Serbia and Turkey. These were attended by some

200 participants. In addition, three consultancies were held in financial institutions, tightly focused on the AML/CFT effectiveness of those specific institutions.

The consultancies and seminars are generally funded by donor funds, including from the governments of Luxembourg and the UK. They are designed to reflect the increased focus of the Bank and the Financial Action Task Force (FATF) on the effectiveness of AML/CFT programmes at a practical level, not simply on understanding AML/CFT themes. The principal aim of both the seminars and the consultancies is to target key personnel from financial institutions and create bespoke training to help them better understand their obligations and how to be effective with constrained resources.

### 3.4 2016 International Anti-Corruption Day

In recognition of International Anti-Corruption Day (9 December), OCCO held the Bank's first ever event marking the Day at the EBRD's Headquarters. The event was opened by the EBRD President, Sir Suma Chakrabarti, and attracted a high turnout of internal and external attendees, including government regulators, members of civil society, members of the defense bar and the private sector.

The highlight of the event was a keynote speech, entitled "Banking Corrupt Money: How Anonymous Companies are Used to Loot State Coffers", delivered by prominent anti-corruption activist Charmian Gooch. Ms. Gooch is a co-founder of Global Witness, an international NGO which was nominated for the Nobel Peace Prize in 2003 and became a recipient of the Skoll Award for Social Entrepreneurship in 2014. Drawing on Global Witness'

experiences in uncovering and fighting corruption, Ms Gooch discussed how anonymous companies, tax evasion, and money laundering contribute to systemic corruption, all of which had recently been highlighted by the leakage of documents from the law firm Mossack Fonseca in Panama. She also addressed existing gaps in the efforts by the international community to fight corruption and how international financial institutions, such as the EBRD, can contribute to the effort to combat global corruption and enhance transparency. To illustrate her points, Ms Gooch showed various undercover videos made by Global Witness agents.

Ms Gooch's remarks were followed by an engaging question-and-answer session that was moderated by the Bank's Chief Compliance Officer, Lisa Rosen.



## 4. Project Integrity

OCCO believes that identifying and resolving issues at the project assessment and approval stage is the most effective means of ensuring the integrity of EBRD transactions. OCCO also helps to monitor projects post-investment. This chapter describes OCCO's approach to integrity due diligence, both ex ante and during the project monitoring stage.

### 4.1 Ex Ante Integrity Due Diligence

OCCO takes a robust approach to assessing prospective projects. IDD includes (but is not limited to) integrity risks and issues, such as:

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

In 2016, the Bank responded to concerns raised about the identification of beneficial ownership, as a result of the leakage of documents from the law firm Mossack Fonseca in Panama, by reviewing its past and current transactions. It is positive to note that the review did not reveal any matters of concern. The additional sources of information which gave rise to the publication of names in the media have been incorporated into the Bank's ongoing integrity due diligence checks.

Although responsibility for the integrity of EBRD projects lies with the whole Banking team as the first line of defence, the responsibility for performing the IDD process rests with the Operation Leader (OL) assigned to the project. Where significant integrity concerns are identified during the IDD process, the potential project must be

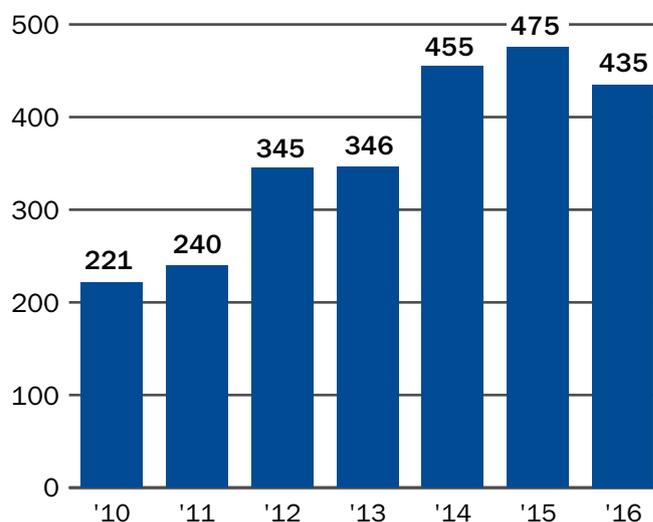
#### Case study 4.1: Did not proceed

An existing client requested that the Bank, as a Senior Lender, consent to the sale and transfer of all its shares to two companies (Company A and Company B). The Bank's consent was required as a legal condition to proceed with the sale.

Integrity due diligence was conducted on the two new companies and highlighted that the majority owner of Company A had been investigated by regulatory authorities for corruption related to an alleged bribe paid to government officials. Although the authorities released the majority owner without charge, due diligence indicated that his release was negotiated based on his cooperation in the case against the government officials. All indications were that the majority owner had paid the bribe.

OCCO advised that Company A would not be acceptable as a new shareholder and therefore the Bank did not provide consent to the client to sell its shares to this entity. The sale terms were subsequently modified so that 100 per cent of the client's shares could be sold to Company B. With this modification, and because no significant integrity concerns had been identified affecting Company B, the Bank provided its consent.

Number of new projects



referred to OCCO. The Project Integrity team, acting as the second line of defence, provides independent advice as to whether the potential risk is acceptable to the Bank. The Operations Committee (OpsCom), consisting of the vice presidents responsible for Banking, Risk Management and Finance, the General Counsel and the Managing Director, Economics, Policy and Governance, advised by OCCO, decides on the acceptability of potential integrity risks before submitting the project for approval by the Board of Directors.

In 2016, 435 potential projects were referred to the Project Integrity team for guidance. While it is not possible to provide a precise number of projects that do not go forward due to integrity risks alone, in 2016

OCCO estimates that there were 44 such cases. This is higher than the usual number of approximately 15 during the previous several years. Please note that there may be other early-stage prospects and enquiries are rejected by Banking teams for integrity reasons without requiring OCCO's input.

The number of requests for integrity advice on new projects has seen a dramatic increase since 2010 (when four members of staff reviewed 221 potential projects).

To help meet this rise in demand and to address the increase in complexity of the projects, OCCO recruited an additional member of staff in 2016. The size of the Project Integrity team increased to nine (as at 31 December 2016) from eight (as at 31 December 2015).

#### Case study 4.2: Did not proceed

A potential project with a local bank in one of the EBRD's countries of operations was assessed by OCCO in 2015, then again in 2016 due to the involvement of a high level politically exposed person (PEP).

Due diligence confirmed that the local bank is controlled by a PEP with close links to the country's political elite, including the presidential administration. Following extensive dialogue with the project team, OCCO advised the team not to pursue the project.

Since OCCO assessed the matter and provided its recommendation, the PEP assumed an even more prominent political role.

OCCO's recommendation was made in accordance with the Bank's practice not to engage with high level PEPs who have control or beneficial ownership, as these PEPs represent real or potential reputational risks that cannot be mitigated.

## 4.2 Enhancing OCCO's project integrity work

During the course of 2016, the Case Management System (CMS) introduced in 2015 was enhanced in order to improve knowledge management capabilities within OCCO. This will help to retain knowledge, enhance institutional memory and ensure access to information, rendering the department less dependent on human recollection and enabling the Project Integrity team to provide more consistent advice on projects.

The CMS provides more detailed data on the resources dedicated to project integrity analysis. In particular, it allows a more precise tracking of case distribution across the Project Integrity team. It also allows OCCO to more easily assess the number of projects displaying integrity concerns of a particular nature, therefore better enabling the team to identify trends and/or themes requiring particular focus.

In 2015, the Project Integrity team embarked on a programme of regional specialisation in order to provide more nuanced integrity advice and increase OCCO's visibility and connectivity to the countries of operations. As part of this specialisation, each member of the Project Integrity team focusses on a set number of specific countries and travels regularly to those countries in order to build relationships and gain a deeper understanding of the integrity issues on the ground. In 2016, this specialisation continued to deliver its benefits. Greater understanding of the countries of operations and closer collaboration with staff members in those countries has enabled OCCO to enhance its effectiveness and provide more tailored, contextually relevant and nuanced decision-making. It has also given OCCO a deeper understanding of the work that may be effective in mitigating integrity risks arising in projects.

In order to mitigate integrity risks and enhance the reputation profile of clients in 2016, OCCO implemented five anti-corruption or compliance action plans, with attendant monitoring by the Project Integrity team, for those companies where such plans were required as a condition for projects to proceed. These action plans have been agreed with project companies in cases where their size and locus of operations has meant that bribery and corruption risks were beyond the companies'

existing systems and controls. While the action plans require considerable resources from both the company concerned and time from OCCO to monitor, the benefits of such action plans are material. They significantly increase company transparency and set the tone for other industry players in the relevant country. This positive demonstration effect helps advance transition in the relevant countries and, specifically, the “well-governed” quality of the EBRD’s transition concept.

#### Case study 4.3: Proceeded

The Bank was considering providing financing to a national authority responsible for implementing and administering the country’s transport projects. A number of follow-up projects were also in the pipeline. Shortly after the first project was signed – but prior to disbursement – a key executive was arrested on charges of bribery and corruption after being caught taking a bribe. The alleged bribe was not paid or solicited in connection with the Bank’s project. The executive was dismissed from his position.

Various mitigating factors were noted in OCCO’s integrity assessment of the situation, including the client’s immediate reporting of the incident to the Bank, its close cooperation with local law enforcement authorities, its proactive undertaking of an internal investigation, and its implementation of corrective measures to help increase transparency and accountability in its governance and procurement.

The project eventually proceeded on the basis of these factors, as well as on OCCO’s requirement that the client implement a compliance action plan by commissioning an independent, external review of its anti-corruption reform efforts and implementing recommendations for further improvement.

#### Case study 4.4: Proceeded

The Bank was considering providing financing to an electricity company in one of its countries of operations. The potential client was part of a large and well-established conglomerate majority owned by a local family, with a successful track record in some of the country’s most important national construction projects.

IDD revealed allegations in the media that the conglomerate’s success was in part owed to its strong political links which resulted in its receiving preferential treatment in order to win tenders. The majority owner had been subject to a corruption investigation as a result of these allegations.

Various mitigating factors were noted during the due diligence process, including confirmation that the group had been unsuccessful in numerous tenders, there was no indication that it had participated in non-transparent or unfair tenders and the investigation into the majority owner was closed due to no evidence of wrongdoing.

The project proceeded on OCCO’s recommendation that the conglomerate commits to strengthening its integrity anti-corruption practices by enhancing its code of conduct and by providing regular compliance training to all staff.

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### 4.3 Monitoring support

As well as providing advice at the pre-investment stage, OCCO's Project Integrity team provides advice and support during investment monitoring and on equity exits, where necessary. On a quarterly basis, the Project Integrity team reviews the information provided by the Banking Department for all projects that have passed final review by OpsCom to monitor compliance with IDD procedures. These quarterly compliance reviews also include an evaluation of the adequacy of the disclosure of integrity issues in Board documents. All of the Board-approved projects subject to this review in 2016 were found to have contained appropriate disclosure.

In addition, 20 per cent of all projects that pass final review by OpsCom are selected for comprehensive assessment to confirm that IDD information is indeed based on information obtained from supporting documents and/or other sources. Monitoring carried out in 2016 produced satisfactory results for the projects monitored. Where there have been concerns during the project preparation phase none of those were material, nor would they have stopped the project. Nevertheless, these concerns are brought to the attention of the relevant Banking team and, where warranted, to the attention of EBRD senior management.

#### Case study 4.5: Did not proceed

The Bank was considering a loan to an IT company in one of its countries of operations.

The company was founded by a local businessman who, in 2012, sold his stake in the company. At the time of the contemplated project, the businessman was under criminal investigation for corrupt activities post-2012.

Even though this controversial businessman had not appeared as an official shareholder of the company since 2012, extensive integrity due diligence identified allegations that he still controlled the company and was concealing his beneficial ownership through a network of close friends and relatives.

In light of the lack of transparency of beneficial ownership, the project was determined to pose an unacceptable reputational risk to the Bank. Upon OCCO's advice, the project was abandoned.

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## 5. Investigations and sanctions

The Agreement Establishing the EBRD expressly provides that the EBRD must take all necessary measures to ensure that the proceeds of its financing are used solely for the purposes for which such financing was granted. To this end, the EBRD prohibits corrupt, fraudulent, coercive, collusive or obstructive practices, theft and misuse of EBRD's resources (Prohibited Practices) in relation to its projects and activities.

OCCO's Investigations team investigates allegations of Prohibited Practices in relation to EBRD projects and the Bank issues sanctions where appropriate. Underlining the Bank's dedication to upholding the highest ethical standards in its own activities, the Investigations team also investigates complaints of misconduct by EBRD staff.

This chapter describes the work of OCCO's investigations team throughout 2016.

### 5.1 Investigations pursuant to the Enforcement Policy and Procedures

EBRD's Enforcement Policy and Procedures (EPPs) are the policy and procedures related to the investigation and, if appropriate, sanctioning of parties that are alleged to have engaged in Prohibited Practices in projects financed from EBRD's ordinary capital resources, Special Funds resources, or trust funds or cooperation funds administered by the EBRD and sanctioning of parties on whom a Third Party Finding has been imposed.



#### Enforcement Policy and Procedures (EPPs)

OCCO classifies EPP complaints as either relating to EBRD's public sector projects or the Bank's private sector operations.

OCCO received 40 new complaints during 2016 alleging the occurrence of a Prohibited Practice in either the EBRD's public sector procurement or private sector operations, and carried forward 18 complaints that had been received during the preceding reporting periods. In 27 cases, the matter did not proceed beyond preliminary assessment and in four cases the matter was closed following a formal investigation (see Table 3).

#### Public Sector Investigations

In 2016, OCCO registered 21 new complaints of a Prohibited Practice in the public sector. These complaints typically allege malfeasance in connection with public tenders, including corruption, fraud or collusion. Most (12) of these matters were referred directly by EBRD personnel who were responsible for monitoring these tenders, while four were referred by investigative agencies in national/international authorities; and five

were from external parties. In addition to these new complaints, OCCO carried forward seven matters from previous periods where it had not yet completed its investigative action.

Of the 28 public sector matters worked on in 2016, 18 were closed after a preliminary assessment; two were closed after a formal investigation; two were referred to the Bank's Enforcement Commissioner for enforcement action; one resulted in other remedial action undertaken by national authorities; and five are subject to ongoing investigations by OCCO.

#### Private Sector Investigations

In 2016, OCCO registered 19 new complaints of a Prohibited Practice in its private sector operations. These complaints typically involve allegations of misuse of EBRD funds, often through unauthorised related-party transactions or an EBRD client engaging in illegal activities. These matters may also arise from civil disputes between private parties.

Ten of these matters were reported to OCCO by external parties, four of which were received through the Bank's compliance inbox. Nine matters were referred to OCCO directly by Bank personnel, including three matters referred from the Bank's Corporate Recovery team. In addition to these new complaints, OCCO carried forward 11 matters from previous periods where it had not yet completed its investigative action.

Of these 30 private sector matters actioned, nine were closed following a preliminary assessment and a further two were closed following a formal investigation; seven matters were referred to the Bank's Enforcement

Commissioner for enforcement action; including one that resulted in an entity agreeing to remove misleading information from its website; and 12 are subject to ongoing investigations by OCCO.

### 5.1.1 Enforcement Commissioner Matters

In 2015, the Bank revised its EPPs which provided for the resolution of matters by way of settlement and created the role of the Enforcement Commissioner as a first-tier decision-maker. OCCO expected that these changes would lead to more matters being referred for enforcement action.



#### EBRD Settlement Agreements

In 2016, OCCO forwarded nine matters to the Bank's Enforcement Commissioner, including eight matters where enforcement action was requested and one matter where interim protective measures were sought. This is a significant increase on the two matters that were referred in 2015, and the five matters in total that were submitted under the previous versions of the EPPs between 2009 and 2015, and demonstrates the effectiveness of the revised EPPs.

In addition to the nine matters referred to the Enforcement Commissioner, OCCO completed two formal investigations in December 2016, which will be referred to the Enforcement Commissioner in early 2017.

The interim protective matter was a request that the Enforcement Commissioner suspends the eligibility of an entity to be awarded Bank-funded contracts pending the outcome of an investigation. After initially suspending the party, the Enforcement Commissioner terminated the action and the matter was subsequently withdrawn by OCCO and the suspension was lifted, following the submission of exculpatory material by the entity.

Summaries of the remaining eight matters referred to the Enforcement Commissioner in 2016 are as follows:

- OCCO requested that the Enforcement Commissioner debar two entities and an individual for a period of three years following an OCCO investigation that resulted in allegations that these entities and an individual had engaged in a fraudulent practice by falsely representing the status of certain construction permits that were critical to the success of a Bank-funded project. The Enforcement Commissioner's decision on this matter is due in 2017.
- OCCO requested that the Enforcement Commissioner

debar six entities and six individuals for a period of four years. This follows an investigation into allegations that these entities and individuals had engaged in a collusive practice when submitting tenders in relation to a procurement contract for the supply of crushed stone in connection with an EBRD project. The Enforcement Commissioner's decision on this matter is due in 2017.

- OCCO reached a settlement with a multinational design and consultancy group following an investigation that established that two of its employees had submitted fraudulent payment claims in connection with an EBRD-funded project. Prior to the settlement, the entity had terminated the two employees. The parties agreed to settle this matter by way of a reprimand, and this outcome was subsequently accepted and confirmed by the Enforcement Commissioner.
- OCCO requested that the Enforcement Commissioner apply the decision of a national court to convict four individuals for fraud in connection with their having submitted false documents in connection with a municipal project funded by the EBRD. OCCO requested that the Enforcement Commissioner debar these individuals from having any further involvement in EBRD projects for a period of four years. Due to difficulties in serving the Notices on several of these individuals, the Enforcement Commissioner will complete his review of this matter in 2017.
- Following an OCCO investigation, it was alleged that seven entities had engaged in a Fraudulent Practice by repeatedly claiming that they were EBRD partners and work with the EBRD's small business programme when, in fact, the EBRD has never had any involvement with them. OCCO requested that the Enforcement Commissioner debar these entities. The Enforcement Commissioner ruled that the EPPs did not cover this type of misrepresentation that was unconnected with an EBRD operation and that he therefore could not take the requested action. Following this decision, OCCO is proposing changes to the EPPs in order that this type of misuse of Bank assets is covered.
- In a further matter, OCCO requested that the Enforcement Commissioner debar two entities and one individual for a period of three years for engaging in a Fraudulent Practice. OCCO alleged that these entities and individual had misrepresented the true financial status of an entity that the EBRD was about to invest in by undertaking and then concealing a number of related-party transactions. Following the Respondents'

non-contestation of this matter in October 2016, the Enforcement Commissioner imposed this sanction, with this result posted on the Bank’s website. OCCO has also referred this decision under the Agreement for Mutual Enforcement of Debarment Decisions, and the debarment has been applied by the four other MDBs who are party to this agreement (see section 5.1.2).

- OCCO reached a settlement with a mid-sized manufacturing company following an OCCO investigation into allegations that this entity had made several corrupt payments to employees of national authorities. The settlement imposed the enforcement outcome of a conditional non-debarment on this entity, on the basis that the entity undertakes extensive anti-corruption and other remedial measures, by adopting a detailed and robust anti-corruption action

plan overseen by an international consultant. The implementation of the plan will be monitored by OCCO. The settlement has subsequently been accepted by the Enforcement Commissioner.

- OCCO reached a settlement with a large regional trading group following an investigation that determined that this group had engaged in a corrupt practice when making payments to employees of a national authority. The settlement imposed the enforcement outcome of conditional non-debarment. As part of the settlement the group agreed to undertake a full anti-corruption action plan that is being overseen by an international monitor. The implementation of the plan will be monitored by OCCO. The settlement was accepted by the Enforcement Commissioner subsequently.

**Table 3: Prohibited Practices complaints**

	2015	2016
New Complaints reported to OCCO	36	40
Complaints carried forward from previous periods	11	18
Complaints closed at preliminary assessment / formal investigation	23	31
Complaints resulting in Enforcement Action	2	8
Complaints resulting in other remedial action (e.g. referrals to national authorities, ‘cease and desist undertakings’)	4	2
Complaints carried forward to new period	18	17
OCCO personnel engaged in investigating fraud and corruption complaints	2.5	2.5

### 5.1.2 Cross-debarments

In 2016, in keeping with the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD) among the EBRD, the African Development Bank Group (AFDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB) and the World Bank Group (WBG), the Bank cross-debarred 183 corporations and 94 individuals following debarment decisions by those institutions.

In addition, the Bank issued one Notice under the AMEDD requesting the cross-debarment of two entities and one individual. These entities and individuals have subsequently been cross-debarred.



[List of all debarred entities and individuals](#)

### 5.1.3 Update on other Investigations

Details and updates of selected investigations are outlined below.

- In 2015, EBRD’s Enforcement Committee imposed an enforcement action of conditional non-debarment for a period of three years on a large multi-national firm and made this entity subject to an extensive anti-corruption programme overseen by an independent enforcement monitor. In 2016, OCCO met with the entity and the enforcement monitor on several occasions to gauge the extent of the entity’s compliance with its conditions of non-debarment. The entity is judged to be making excellent progress.
- In June 2016, an entity that had participated in a public sector procurement exercise conducted pursuant to EBRD rules pleaded guilty in a national court to having engaged in a corruption-related offence in connection with that procurement process. The

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court ordered that the entity make a payment in excess of €21 million consisting of fines, compensation and costs. The prosecutor explicitly noted that the result was substantially facilitated by work that was

done by OCCO and which included a review of tens of thousands of potentially relevant documents and the drafting of an extensive expert witness statement.

## 5.2 Investigations under the Conduct and Disciplinary Rules and Procedures

OCCO investigates allegations of staff misconduct in accordance with the CDRPs, which were last revised in 2015.

In 2016, OCCO received 36 reports of suspected misconduct on the part of staff members and carried forward a further matter that was received late in 2015, of which 32 were resolved and four were still under investigation at the end of the year (see Table 4).

### 5.2.1 Summary of Investigations into allegations of Staff Misconduct

- A large-scale formal investigation into the fraudulent administration of Bank funds and serious conflicts of interest resulted in recommendations for disciplinary action against two staff members under Part III of the CDRPs. The MDHR subsequently terminated the employment of the two individuals.
- OCCO conducted two separate formal investigations into the submission of fraudulent claims for reimbursement of medical expenses through the Bank's medical insurance plan. Both matters resulted in recommendations for disciplinary action under Part III of the CDRPs and are with the MDHR for decision. A third investigation into similar allegations was closed without disciplinary action, due to the fact that prior to OCCO's receipt of the allegation, the staff member concerned had left the Bank's employment.
- Two complaints of staff members engaging in retaliatory acts as a result of other staff members undertaking a protected activity. Following a review of the matter, in both cases OCCO determined that the purported retaliatory action was not an act of "retaliation".
- Two separate formal investigations, into allegations that staff members had falsely claimed medical leave, resulted in one matter being closed because the staff member separated from the Bank's employment during the investigation and in the second matter, an OCCO recommendation that the staff member be issued with a written warning.
- A formal OCCO investigation into a staff member's misuse of a Bank vehicle resulted in a recommendation that the staff member be issued with a written warning.
- OCCO conducted five separate inquiries into allegations of fraudulent conduct. In each matter, it was determined that the allegations could not be sufficiently established, with no finding of wrongdoing being found on the part of the staff members concerned.
- Three separate allegations, of breach of Rule 1 of the Code of Conduct (General Standard of Conduct), were found not to amount to misconduct. However, in two of these matters, OCCO identified areas for improvement in certain Bank processes, making recommendations that these be appropriately addressed by the relevant departments.
- OCCO conducted three investigations into allegations of breaches of Rule 2(d) of the Code of Conduct (Harassment and Bullying). In each case it was determined that the conduct complained of did not amount to misconduct.
- An OCCO investigation into a breach of Rule 7 of the Code of Conduct (Gifts, Hospitality, Gratuities, Honours and Awards), by a staff member who failed to consult and seek the approval of managers, prior to accepting lavish hospitality from a Bank client, resulted in a recommendation to the MDHR that the staff member receive a written warning.
- Three separate OCCO investigations determined that allegations of Conflicts of Interest, in breach of Rule 3 of the Code of Conduct (Conflicts of Interest), were not sufficiently reliable.
- Four OCCO investigations into allegations of unauthorised use/improper disclosure of confidential Bank information were closed, after the allegations in three cases could not be sufficiently established and, in the fourth case, the staff member separated from the Bank.
- An OCCO investigation into a serious criminal allegation against a Bank staff member, brought to the attention of the Bank by the UK authorities, continues.

**Table 4: Misconduct Complaints 2015-16 Comparative Analysis**

Misconduct Complaints	2015	2016
New Complaints of Staff Misconduct reported to OCCO	26*	35*
RWP referrals from MDHR	-	3
Complaints closed without referral for disciplinary action	16	25
Staff who separated during course of investigation	3	1
Referred to MDHR for written warning	2	3
Referred to MDHR for disciplinary action	6	4
OCCO personnel engaged in Staff Misconduct matters	1.5	1.5

\* One matter carried over from 2015; four matters carried over to 2017.

### 5.2.2 Notes on Misconduct Investigations

Just 17 per cent of matters (six cases) investigated in 2016 involved allegations of harassment or bullying, an appreciable reduction from 2015, when 55 per cent of matters investigated involved such allegations.

This would indicate that the RWP function has not only played a meaningful role in reducing the number of bullying and harassment cases OCCO is required to process, but has also provided Bank personnel with an effective means by which to resolve incidents of improper interpersonal behaviour less formally.

### 5.2.3 Cooperation with enforcement authorities external to the Bank

In addition to the above matters, OCCO continued to assist law enforcement authorities in the United Kingdom in relation to two investigations. The first matter involved a former staff member and the misappropriation of Bank's funds. This matter stems from a 2014 OCCO inquiry into the fraudulent withdrawal of funds from a former staff member's Money Purchase Plan, administered by the Bank. The matter was subsequently referred to the UK police and in May 2016, following a three-week trial at Isleworth Crown Court in London, four defendants were convicted and sentenced to terms of imprisonment totalling 14 years.

The second matter involves a referral the Bank made to the City of London Police in 2010 and concerns allegations that a former Bank staff member received large corrupt payments from Bank clients as a reward for assisting them in obtaining Bank funding. The trial in this matter commenced but was abandoned in late 2015. The matter is due for re-trial in April 2017 at the Old Bailey, London.

In connection with the above matter, in April 2016 an individual pleaded guilty in the US Federal Court in Philadelphia to two counts of violating the US Foreign Corrupt Payment Act (FCPA). As part of this plea, the individual agreed to forfeit US\$ 1.9 million. He has been remanded in US federal custody and is due to be sentenced in 2017. OCCO understands that this is the first time that a conviction has been obtained under the FCPA for making corrupt payments to an employee of an International Financial Institution.

#### Case study 5.2.4: Staff Misconduct

The Bank rightly expects that, in the course of the performance of their duties, its employees observe the highest standards of integrity and honesty, observing the policies and practices that govern their employment relationship with the Bank, as contained within the EBRD Staff Handbook, which includes, among other things, the Code of Conduct for EBRD Personnel.

In early 2016, OCCO was notified of concerns regarding a budget overspend within one of the Bank's Resident Offices (RO) and suspicions that Mr A, a regular employee within the RO concerned, may be engaging in fraudulent practices.

A formal OCCO investigation, focusing initially on Mr A, identified similar concerns regarding the conduct of Mr B, also a regular employee with the RO concerned. The investigation subsequently identified numerous instances of fraud, as well as poor internal controls including:

- A company created and owned by Mr A and Mr B and engaged by the RO to provide unnecessary and overpriced services
- Multiple unauthorised contracts, created in collusion with local service providers

- Multiple instances of fraudulent invoices being created by Mr A and Mr B and then each acting as the invoice approver for the other
- Improper use and misappropriation of Bank assets, including RO vehicles
- Unsupported and irregular expenditure in relation to the provision of goods and services to the RO
- Multiple instances of services being provided to the RO by persons related to current Bank employees within the RO.

The formal OCCO investigations resulted in recommendations to the MDHR for disciplinary action against the two Bank employees. The subsequent disciplinary process, conducted in accordance with Part III of the CDRPs, concluded with the termination of their employment.

As a result of this matter, the Bank has reviewed its approach to how it oversees the activities of its ROs and OCCO is working with HR and the Banking Department to develop proactive measures designed to ensure that the conduct is not repeated in future in any of the ROs.

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## 6. International cooperation

This chapter describes OCCO's international cooperation activities throughout 2016.

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

- keep up-to-date with and support the efforts of relevant international organisations

- participate in the development and dissemination of best practice
- work effectively with other international institutions in the common fight against corruption in emerging and transition economies.

Key activities during 2016 are summarised below.

### 6.1 Intergovernmental initiatives

OCCO continued to engage with key intergovernmental initiatives during 2016, including the FATF, MONEYVAL (the AML compliance body of the Council of Europe) and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG). A representative of OCCO regularly attended the meetings of these bodies.

The Bank's engagement with FATF and associated bodies is critical to the EBRD's assessment of risk in the regions monitored by these organisations.

Where the FATF has identified a jurisdiction as having strategic AML/CFT deficiencies, the Bank undertakes enhanced due diligence on all proposed counterparties within this jurisdiction, in order for it to be satisfied that these counterparties have appropriate AML/CFT procedures to mitigate this risk.

To underscore the importance of anti-corruption reforms in its countries of operations, OCCO is an active participant in the annual OECD Integrity Week and is a member of the OECD Anti-Corruption Network for Eastern Europe and Central Asia (ACN). In 2016, OCCO also contributed to a country report prepared as part of the ACN's second round monitoring report on anti-corruption reform efforts.

OCCO's cooperation with OECD and the Council of Europe included assisting with the design and presentation of workshops for anti-corruption practitioners in two countries of operations. OCCO also worked with EBRD's Procurement Department and the International Federation of Consulting Engineers (FIDIC) to convene a workshop to a select group of anti-corruption authorities.

### 6.2 Multilateral Development Bank (MDB) cooperation

OCCO maintains close bilateral and multilateral relationships in the field of anti-corruption with other MDBs. Alongside the International Monetary Fund, World Bank Group, International Finance Corporation, European Investment Bank and the African Development Bank, Asian Development Bank and Inter-American Development Banks, OCCO is an active participant in the MDB Heads of Integrity forum.

This forum was initially established as a Task Force in 2006 to agree harmonised Prohibited Practices. Since then, it has evolved to be an active forum encouraging consistency among the MDBs in the investigation and enforcement of Prohibited Practices, including the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD), of which the Bank is a signatory. The forum also raises awareness of MDB anti-corruption efforts.

In 2016, the three meetings of the MDB Heads of Integrity focused on more effective sharing of information, cooperation with respect to investigations arising in co-financed projects, engagement with national authorities and areas for further harmonisation of Prohibited Practices, as well as investigative procedures, including the process for referring matters to national authorities. One of these meetings took place in the margins of the International Anti-Corruption Conference held in Panama City, where the MDBs also presented a joint panel on enabling integrity through incentives, innovation and international cooperation.

Separately, in March 2016, OCCO initiated and hosted the first MDB Heads of Integrity Due Diligence (HIDD) meeting in Paris. Similar to the Heads of Integrity meeting, this inaugural meeting focussed on the sharing of information and potential areas for harmonisation. OCCO anticipates

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that HIDD meetings will become a regular feature of MDB gatherings.

Other relevant meetings attended by representatives of OCCO during 2016 included the:

- Annual MDB Conference on Private Sector Integrity
- OLAF's annual Conference of International Investigators
- Ethics Network of Multilateral Organizations (ENMO) Conference
- Annual Meeting of Economic Crime Agencies Network
- European Chief Compliance Officers' Annual Meeting
- 2016 UK Anti-Corruption Summit
- International Anti-Corruption Practitioner Conference

## 6.3 Other international cooperation activities

As in previous years, the EBRD has helped to support the work of standard setters by working closely with governments, civil society representatives and the private sector. In 2016, OCCO continued to participate in the Steering Committee for Transparency International's Business Principles for Countering Bribery.

OCCO also worked closely with other international partners on the threats posed by de-risking. De-risking describes the situation where certain participants in the international financial community may reduce their exposure and involvement in certain countries when they perceive that the risk of continuing engagement is outweighed by regulatory or other risk concerns in relation to AML/CFT and international sanctions. Some of OCCO's training on AML and CFT for external

third parties, referred to section 3.3 above, is aimed at lessening the likelihood of de-risking financial institutions in the Bank's countries of operations. De-risking is a consistent theme at the Wolfsberg Forum, an annual gathering of international regulators and financial institutions organised by the Wolfsberg Group in which OCCO participates.

OCCO also participated in the 2016 B20 Anti-Corruption Forum (now known as the B20 Responsible Business Conduct and Anti-Corruption Cross-Thematic Group).

# 7. Outlook for 2017

**During 2017 OCCO will continue to focus on the activities summarised in this report. Priorities will include:**

- continued work on establishing the capital markets compliance function within OCCO and revision of associated guidelines and procedures
- enhancing the quality of project integrity advice, including through visits to Resident Offices, as part of OCCO's regional specialisation strategy
- continuing proactive work with relevant clients on the development and implementation of anti-corruption and compliance action plans. The current plans will continue to be monitored and new action plans will be initiated, enhancing the reputational risk profile of the companies involved.
- improving training materials to enhance delivery of OCCO messages
- initiation of reviews of the Codes of Conduct
- initiation of reviews of the current whistleblower framework, with a view to developing a stand-alone Whistleblower Policy
- initiation of reviews of the Enforcement Policy and Procedures
- processing allegations of misconduct and/or Prohibited Practices
- international cooperation with other organisations and initiatives.

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