



European Bank  
for Reconstruction and Development

# INTEGRITY AND ANTI-CORRUPTION REPORT 2017



# About this report

**The EBRD's Office of the Chief Compliance Officer (OCCO) is responsible for protecting the Bank's integrity and reputation, setting its ethical standards, and acting as an independent check to see that these standards are built into all aspects of the EBRD's operations. The department plays a critical role in ensuring that these operations and the Bank's business partners help to build well-governed, competitive and sustainable market economies.**

**The *Integrity and Anti-Corruption Report 2017* summarises the actions that have been taken during the reporting period to ensure that the EBRD has conducted its business activities with integrity. It also describes how OCCO has responded to allegations of fraud and corruption connected to the EBRD's activities and how this response has enhanced business integrity in the Bank's region.**

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[www.ebrd.com/who-we-are/our-values/investigating-fraud-and-corruption.html](http://www.ebrd.com/who-we-are/our-values/investigating-fraud-and-corruption.html)

## How to report fraud and corruption to the EBRD

Complaints, including reports of suspected fraud, corruption and misconduct, can be submitted to OCCO by email, telephone or in writing at the above address, or via the online form at:

[www.ebrd.com/eform/contact/1390580844264](http://www.ebrd.com/eform/contact/1390580844264)

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

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# Abbreviations

<b>AMEDD</b>	Agreement for the Mutual Enforcement of Debarment Decisions	<b>IDD</b>	Integrity Due Diligence
<b>AML</b>	Anti-money laundering	<b>IMF</b>	International Monetary Fund
<b>BIDD</b>	Business Integrity Due Diligence	<b>MDB</b>	Multilateral development bank
<b>CCO</b>	Chief Compliance Officer	<b>MD HR</b>	Managing Director of Human Resources
<b>CDRPs</b>	Conduct and Disciplinary Rules and Procedures	<b>ND</b>	Nominee Director
<b>CFT</b>	Countering the financing of terrorism	<b>OCCO</b>	Office of the Chief Compliance Officer
<b>CMS</b>	Case Management System	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>EAG</b>	Eurasian Group on Combating Money Laundering and Financing of Terrorism	<b>OL</b>	Operation Leader
<b>The EBRD, the Bank</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>RO</b>	Resident Office
<b>FATF</b>	Financial Action Task Force	<b>RWPs</b>	Harassment-Free and Respectful Workplace Procedures
<b>FI</b>	Financial institution	<b>SEMED</b>	Southern and eastern Mediterranean
<b>HR</b>	Human Resources	<b>SOE</b>	State-owned enterprise
		<b>VP3</b>	EBRD Vice Presidency, Policy and Partnerships

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# Message from the President

In 2017, the EBRD began to use its updated concept of transition to underpin the design and evaluation of the Bank's investments and technical assistance. Our revised concept argues that a well-functioning market economy should be competitive, well-governed, green, inclusive, resilient and integrated – the six “transition qualities” that we believe lie at the heart of transition to open-market economies and to private and entrepreneurial initiative.

Integrity is essential for a modern economy to become well-governed and competitive. It also plays an important role in promoting inclusion, resilience and integration.

It is clearly very difficult for an economy to become better governed or more competitive if it suffers from widespread institutional and structural corruption. And whatever the planned transition impact of an EBRD project, it is unlikely to achieve its goals if its integrity is compromised or open to question.

The Bank's Office of the Chief Compliance Officer (OCCO) is central to our work of furthering transition in the EBRD region.

Through its mandate and strategy, OCCO sets the Bank's integrity and ethical standards. It acts as an independent check to help ensure that these are incorporated into every aspect of our operations. The department develops key integrity policies, delivers related training, provides expert advice to assess integrity risks and, if required, investigates and sanctions those who fail to abide by them.

There are three main components to OCCO's strategy:

1. It works with partners across the EBRD region and beyond to ensure that our operations have an acceptable integrity profile. During 2017 we enhanced our due diligence to address the challenge of working in new jurisdictions, such as Lebanon and the West Bank and Gaza.
2. The department engages with partners to promote innovative programmes and tools that assist the Bank, its counterparties, national and international partners, and economies in our region, to enhance their business integrity. This includes helping to train government agencies, central banks and financial institutions in anti-money laundering, countering the financing of terrorism, and fighting corruption.

OCCO also works to see that the Bank serves as a role model for good governance, by developing integrity policies and ethical standards of behaviour for its own staff, in line with international best practice. This provides further assurance that we are internally well-governed, adhere to the same high standards that we expect of others, and that our conduct both inspires and sets an example.

3. With regard to Bank counterparties that have engaged in wrongdoing, OCCO works to embed reforms, helping these organisations to transform themselves into well-governed and sustainable firms.

The publication of this annual report is one of the many ways in which OCCO acts as an advocate for the value of integrity and, more broadly, for the EBRD's efforts to combat corruption and enhance the business climate of the economies where we invest. I recommend this report to everyone interested in the progress of reforms in our region.



**Suma Chakrabarti**  
EBRD President



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# 1. Introduction

Since it was founded, the European Bank for Reconstruction and Development (EBRD) has shown that integrity is an essential component of sustainable transition to open-market economies. In 2017, the Bank reaffirmed its commitment to integrity by incorporating anti-corruption and compliance elements into the assessment of performance against a key EBRD “transition quality”: “well governed”.<sup>1</sup> OCCO’s work is now an explicit component of the EBRD’s mission to support transition, reinforcing the department’s contribution to the Bank’s mandate.

OCCO is independent and separated from the operational departments of the EBRD. It is headed by a Chief Compliance Officer (CCO), Ms Lisa Rosen, who reports functionally to the EBRD President and has full and free access to the Chair of the Audit Committee. OCCO has 23 staff members (up from 22 in 2016) and is divided into 3 teams: Policy and Ethics, Project Integrity, and Investigations. In its efforts to promote a culture of ethical behaviour in the Bank, its projects and the EBRD region, each OCCO team fulfils roles that are **protective**, **proactive** and **remedial**.

In its **protective** role, OCCO develops key integrity policies, delivers related training and provides expert advice to the Bank to assess integrity risks. The department also works to ensure that the EBRD, its clients, project sponsors and other stakeholders meet the high standards expected by the Bank. In cases where EBRD 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 building effective transition requires enhancements to the business environment in economies where the EBRD operates. Therefore, in 2017, OCCO’s **proactive** role took on increased importance. Throughout the year, OCCO worked with partners across the Bank and with international organisations on innovative programmes that advance business integrity and fight corruption. This move towards proactive engagement on integrity has included the development of bespoke anti-corruption and compliance action plans which, coupled with rigorous conditionality, motivate clients to

improve their integrity profile. It also includes broader thematic initiatives, working with colleagues across the Bank and with international partners in order to maximise collective impact and further the anti-corruption agenda. By developing and participating in programmes on topics such as anti-money laundering and countering the financing of terrorism, and by engaging with the work of international bodies – such as the Financial Action Task Force, MONEYVAL (the AML compliance body of the Council of Europe) and the OECD Anti-Corruption Network for Eastern Europe and Central Asia – OCCO helps the EBRD and the international community to create a more sustainable and competitive business environment.

In 2017, the department’s **remedial** role also saw a deeper focus on anti-corruption capacity-building, in the context of investigations. When a client has engaged in alleged wrongdoing but has demonstrated a genuine commitment to improving, OCCO promotes remediation and reform as alternatives to traditional sanctions. Several such improvement programmes were implemented in 2017, with ongoing monitoring and support from external experts, helping to transform formerly corrupt companies into champions of business integrity.

OCCO’s increased focus on capacity-building has made greater use of the department’s expertise in anti-corruption and compliance, and the results are already evident. There are tangible examples of the introduction of effective compliance programmes by private and state-owned companies in the southern and eastern Mediterranean (SEMED) region, the Baltic states, Eastern Europe, Turkey and the Western Balkans, all of these achieved through a combined effort by EBRD departments, including a significant commitment by OCCO staff.

The *Integrity and Anti-Corruption Report 2017* summarises the work that OCCO has done to promote a culture of ethical business conduct within the Bank, its projects, the community of international financial institutions and the wider EBRD region to further the anti-corruption agenda. 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 2017.

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<sup>1</sup> “Well governed” is one of the EBRD’s six “transition qualities”. For more information on these qualities see [www.ebrd.com/our-values/transition.html](http://www.ebrd.com/our-values/transition.html)

In 2018, OCCO will build on this work. The team will continue to play a leading role in client-focused and thematic initiatives to build capacity in anti-corruption, and to push this agenda in all economies where the Bank invests. OCCO's remit will also expand to include responsibility for the EBRD's approach to client domiciliation. The department will lead a review of the

EBRD's Domiciliation Policy and provide guidance on the use of third-party jurisdictions in Bank projects. In all of these efforts, it will look for new opportunities to contribute directly to the EBRD's transition mandate by promoting business with integrity in the EBRD's work, among clients, and in the wider business community.

## 1.1. OCCO highlights for 2017

### 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 policies, rules, procedures and processes are effectively communicated and implemented. Its objective is to ensure that the internal standards of integrity at the EBRD are in line with international best practice, creating a demonstration effect in the economies where the Bank invests.

The *Code of Conduct for EBRD Personnel* and the *Code of Conduct for Officials of the Board of Directors* (collectively, the "Codes") are reviewed every five years. At the start of 2017, OCCO began this formal review exercise, which has now been completed. The amended Codes will be sent to the Bank's Board of Governors for approval.

Throughout 2017, OCCO also continued to provide extensive advice related to the Codes and policy, to staff and Board Officials, responding to over 290 compliance enquiries, issuing advice in over 235 cases and providing 47 authorisations pursuant to the Codes.

Furthermore, in response to the Bank's increased emphasis on listed investments and the development of capital markets, the department continued to focus on capital markets compliance. OCCO developed specific requirements for the EBRD's investments in listed securities. These requirements were approved by internal committees at the Bank.

### 1.1.2. Project Integrity

The Project Integrity team is responsible for providing advice on Integrity Due Diligence (IDD) with regard to prospective EBRD projects. The team works with partners across the Bank to ensure that operations

have an acceptable integrity profile. It provides expert independent advice on managing integrity risks, fulfilling its protective compliance function. In 2017, 470 potential projects were referred to the team for guidance as part of the IDD process, compared with 435 in 2016, an increase of 8 per cent.

In 2017, the team played a leading role in OCCO's efforts to promote a culture of integrity and compliance among EBRD clients and within the economies where the Bank invests. During the year, OCCO helped to implement 21 client-specific anti-corruption or compliance action plans – programmes in which Bank clients agree to improve their internal controls as a condition of Bank financing. These action plans have had a significant impact on the integrity profile of these companies, including major state-owned entities, as well as having a positive demonstration effect in the market. Indeed, in recognition of the importance that this work plays in supporting transition, anti-corruption work or compliance action plans have been integrated into the Bank's assessment of its transition impact.

OCCO also contributed to good governance through continued engagement with wider capacity-building efforts. Highlights included five consultancies, begun or completed in 2017, that focused on controls for anti-money laundering (AML) and on countering the financing of terrorism (CFT). These consultancies provided support to financial institutions as they adapted to the evolving requirements of AML, CFT and sanctions. The work included analyses of the institutions' controls and recommended reforms, thereby helping to address the challenge of de-risking.<sup>2</sup>

### 1.1.3. Training

In 2017, OCCO provided classroom-based training on the EBRD's ethical principles to 283 members of staff and to 10 Board Officials, through a course entitled *Integrity Matters!*. The year also saw OCCO launch an online training module of *Integrity Matters!*, designed for

<sup>2</sup> De-risking describes a situation in which international banks reduce their activities in countries where they perceive that the risks relating to AML, CFT and international sanctions are too great.

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staff members who are unable to attend training at the Bank's Headquarters (HQ). In addition to the 283 staff members trained in the classroom, 174 completed the online module.

Training on Integrity Due Diligence was given to 857 members of staff, compared with 547 in 2016, and specialist training was provided to 31 Nominee Directors (NDs) on their roles and responsibilities. Moreover, OCCO staff members, while on business trips to Resident Offices, took the opportunity to provide any training required, with a specific emphasis on IDD refresher courses.

OCCO also led the development of four new courses to help EBRD staff identify integrity risks in their projects. These included a specialised training session on capital markets compliance that was provided to 211 new Bank staff, as well as 3 new IDD courses aimed at honing core skills and identifying integrity issues during the project-monitoring phase.

#### **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 significantly in 2015. Further small revisions were made in 2017 to incorporate OCCO's experiences of applying the EPPs over the previous two years.

The introduction in 2015 to the EPPs of a mechanism for matters to be resolved by way of settlements enabled investigations to support the proactive and remedial elements of OCCO's work. Since the revision of the EPPs, in six matters OCCO has entered into formal agreements with entities to address internal deficiencies and to resolve previous instances of fraud and corruption. The agreements have enabled OCCO to impose on these entities specific conditions to improve their internal governance and anti-corruption controls. The actions required typically include the relevant entity having to devise and implement an anti-corruption action plan detailing the steps that must be completed. In 2017, OCCO entered into two new agreements, with two large state-owned enterprises (SOEs), and continued to monitor implementation of the action plans devised in four other matters that had been agreed during 2016.

In 2017, OCCO received 25 new actionable complaints of misconduct on the part of EBRD staff and carried forward 3 matters received late in the previous year. Of the complaints investigated in 2017, 19 proceeded to formal investigation under the CDRPs. And of the 28 matters that were investigated during the year, 26 were fully resolved and 2 remained under investigation at the end of 2017.

In addition, 2017 saw the commencement of the Resident Office (RO) inspections programme. This new initiative, undertaken jointly with the EBRD's Banking Vice Presidency, was designed to deter misconduct and identify areas of vulnerability in RO controls. The first two inspections took place in the Bishkek and Skopje ROs. No evidence of misconduct was found following those visits, but additional enhancements to internal controls were recommended.

#### **1.1.5. International cooperation**

During 2017, OCCO continued its active engagement with international partners, whether as part of intergovernmental initiatives, or in cooperation with multilateral development banks. Section 6 of the *Integrity and Anti-Corruption Report 2017* provides further details of this work.



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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 the organisation's integrity and anti-corruption standards. It helps to identify, assess and monitor integrity risks arising from any 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* is the primary articulation of the Bank's corporate values and principles with regard 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 EBRD. 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 of Risk and Compliance and the Chief Risk Officer administrative oversight of OCCO, except in relation to the Project Complaint Mechanism (PCM), where administrative oversight remains with the President. The CCO continues to report functionally to the President on all matters and to have full and free access to the Chair of the Audit Committee.

*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* (collectively, the "Codes") are approved by the Bank's Board of Governors and they 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 to be misconduct and the procedures to be followed with respect to investigating and, where appropriate, sanctioning such unethical behaviour. The Codes each provide for their own review no later than five years from the date on which the relevant Code became effective. At the start of 2017, OCCO formally began this review exercise, which has now been completed.

The revised Codes take into account discussions with and feedback from management, the Staff Council, the Bank's own experience with the Codes over the past five years and a comprehensive benchmarking exercise conducted in relation to the codes of conduct (and related instruments) used at other multilateral development banks. The revised EBRD Codes are in the process of being approved by the Bank's Board of Governors.



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



[Code of Conduct for EBRD Personnel](#)

### Case study 2.2.1. Conflict of interest

Mr A worked in a non-banking function at a Resident Office and was in the process of finalising his secondment to an academic institute that specialises in development studies (the “Institute”).

During this time, Mr A was asked to participate in a procurement evaluation panel for a Bank project that required research services. Reviewing the list of bidders, Mr A realised that the Institute was one of the bidders and had submitted a detailed proposal under the tender. In accordance with Rule 3(b) of the Code of Conduct, Mr A contacted OCCO for guidance.

Rule 3(b) of the Code of Conduct requires Bank staff to “avoid any situation involving a Conflict of Interest or the appearance of a Conflict of Interest”. A “Conflict of Interest” is defined under Rule 3(a) of the Code of Conduct as “a situation or circumstances in which private interests of Bank Personnel influence or may influence the objective and impartial performance of

their official duties. In this regard, private interests include any advantage for themselves, their families or personal acquaintances.”

With this definition in mind, OCCO reached the view that even though arrangements for the prospective secondment had not yet been finalised, Mr A’s participation on the procurement evaluation panel could still give rise to a potential conflict of interest and the perception of conflict, were he to proceed with the secondment.

Thus, OCCO advised Mr A not to participate in the procurement process and further recommended that he recuse himself from any EBRD matter that may arise during his secondment to the Institute. This approach avoided any potential conflicts (both actual and perceived) and allowed Mr A to successfully pursue his secondment at the Institute.

### Case study 2.2.2. Post-employment

The Bank implemented a voluntary severance programme (the VSP) in April 2017. This led to OCCO receiving a high number of requests for advice about staff members’ post-employment obligations under the Code of Conduct.

Ms B worked as a banker at the EBRD’s HQ. She submitted her VSP application and wanted to know if it would be possible to join a Bank client in a non-banking role, were her VSP application to be successful. Rule 6(d) of the *Code of Conduct for EBRD Personnel* contains a provision about post-employment which states that staff may not, “for a period of one year after separating from the Bank, perform services for any entity or its Affiliate(s) in respect of any matter in which the Bank has an interest or is a party and in which such Bank Personnel have Participated Personally and Substantially while at the Bank.”. Given that Ms B was the Operation Leader (OL) of the project involving the Bank client, she needed to know if the foregoing restriction would apply, and contacted OCCO to seek advice.

On receipt of her request, OCCO undertook standard due diligence on the Bank project, including an assessment of risks from the perspective of integrity and reputation. OCCO also consulted the heads of the relevant sector and country teams in the Banking Department to assess whether Ms B’s future employment would pose any potential conflicts of interest. OCCO was advised that the entity was a longstanding reputable client of the EBRD and there had been no concerns about the relationship in the past; the likelihood of a conflict in future was low, especially as Ms B was to be employed in a role that was unrelated to any EBRD investment. In addition, the fact that the VSP had not yet been announced when Ms B was the project OL further mitigated any perception of conflict of interest. On this basis, OCCO advised Ms B to submit a formal request for derogation from the prohibition under Rule 6(d) (Post-Employment) under the *Code of Conduct for EBRD Personnel*.

## 2.3. Enforcement Policy and Procedures

The *Enforcement Policy and Procedures* (EPPs) set out the Bank's policy and procedures for reporting, investigating and processing allegations of Prohibited Practices in relation to any Bank assets and any activities and projects financed, or intended to be financed, from any Bank resources.

In 2015, the EPPs were substantially revised to strengthen the due-process rights of participants in the enforcement process and to make the process more efficient. These changes have been successful.

The experience of using the EPPs since 2015 showed that a number of minor revisions were required to ensure the continued fair and efficient operation of the Bank's enforcement process. To this end, OCCO suggested amendments to the EPPs and the Board approved these in 2017.

The amendments slightly increased the scope of the EPPs. The previous version of the EPPs applied only to Prohibited Practices "in relation to activities and projects financed, or intended to be financed, in whole or in part [...]". The scope of the EPPs was increased to cover Prohibited Practices in relation to the EBRD's property and assets, in order to allow the Bank to respond appropriately to allegations of Prohibited Practices that affect its property in circumstances where the impugned conduct is not otherwise connected with a Bank "activity and project" (for example, misuse of the Bank's name, intellectual property and registered marks).

While other revisions to the EPPs were less substantive in nature, the most notable revisions were as follows:

- The Enforcement Commissioner now has the ability to request the Chief Compliance Officer (CCO) to provide additional information and/or propose different

Prohibited Practices after the submission by the CCO of the draft Notice of Prohibited Practice.

- The rules covering a request for suspension have been clarified to detail the information that the CCO must provide to the Enforcement Commissioner, namely, a description of the OCCO investigation and the reasons for requesting the suspension.
- The EPPs now specify that the Bank's Board of Directors will only receive the details of the Bank's Enforcement Actions when they include the debarment of an entity or individual.
- The section dealing with Affiliates has been revised to provide more granularity on how Affiliates of a debarred entity may be affected by an Enforcement Action. Affiliates are classed as either Subsidiaries or as the Parent of the Respondent. Subsidiaries of a Respondent are intended to be subject to the same Enforcement Actions and Disclosure Actions as the Respondent, unless the Respondent can demonstrate why this should not be the case. Enforcement Actions and Disclosure Actions will only apply to the Parent of the Respondent, where this entity has been implicated in the Enforcement Proceedings.



### Enforcement Policy and Procedures

In light of these amendments to the EPPs, OCCO drafted an update to the practice note titled *Note on the EBRD's Enforcement Processes, including Settlement Agreements*. This revised note is available on the Bank's website.



### Note on the EBRD's Enforcement Processes, including Settlement Agreements

## 2.4. Whistleblower protection

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

- EBRD 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
- retaliation against another by reason of that person's good faith compliance with this obligation (or because

of that person's participation in the Bank's internal dispute resolution regime) may be regarded as misconduct and dealt with accordingly.

In 2018, OCCO will look at enhancing the whistleblower protection regime through the creation of a standalone policy. During 2017, in preparation for this review, OCCO continued to benchmark against the relevant practice of comparator multilateral development banks to ensure that the EBRD's current approach to whistleblower protection remains consistent with the highest standards.

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## 2.5. Conduct and Disciplinary Rules and Procedures

Allegations of staff misconduct are investigated under the *Conduct and Disciplinary Rules and Procedures* (CDRPs).

During 2015 and 2016, OCCO advised on a number of important changes to the investigation regime relating to staff misconduct, including the following areas:

- 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 (MD HR) as decision-maker with regard to any disciplinary action
- the creation of the Harassment-Free and Respectful Workplace Procedures (RWPs), which set out processes for dealing with improper interpersonal behaviour
- a revised Guidance Note on Rule 2 of the *Code of Conduct for EBRD Personnel*, which more clearly articulated the definitions of Harassment, Sexual Harassment and Abuse of Authority
- the creation of a phased reporting mechanism under which allegations of improper interpersonal behaviour are reported to an HR Employee Relations officer in the first instance; that officer then undertakes an assessment and communicates their findings

to the MD HR, 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.

Consequently, 2017 was largely a year where the above reforms were embedded in the Bank and OCCO proposed only minor adjustments to the CDRPs to make them more effective. These adjustments included clarifying what material OCCO provides to the MD HR when making a recommendation for the issuance of a non-disciplinary warning and refining the process that OCCO adopts when it receives a complaint from the MD HR under the RWPs. These changes were agreed and will be formally implemented in 2018.

In 2017, OCCO opened 25 new matters under the CDRPs, 6 of which were referred by the MD HR under the RWPs and related to bullying and harassment. It should be noted that 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 Officials of the Board of Directors of the EBRD* or the *Code of Conduct for EBRD Personnel*, respectively. There were no allegations against such persons in 2017.

## 2.6. Nominee Director Rules and Procedures

OCCO continues to provide training and guidance on the *Rules and Procedures Relating to the Selection and Appointment of EBRD Nominee Directors and Members of Equity Fund Committees* (the Nominee Director Rules) and the role of Nominee Directors more generally. This training and guidance focuses particularly on identifying and managing conflicts of interest that may arise in relation to new or existing Nominee Directors and their reporting obligations (including in relation to possible Prohibited Practices under the EPPs). With regard to new appointments, OCCO provides confirmation that such proposed appointments are consistent with the Nominee Director Rules.

In the course of 2017, the EBRD's equity investments gave rise to 42 new board seats, including replacements for outgoing Bank-appointed Nominee Directors. This brought the total number of board seats held by the Bank to 149. The 42 new board seats entailed the appointment of 27 male (16 internal and 11 external appointees) and 10 female (all internal) NDs.

In addition, 21 new appointments were made to committees of equity funds in 2017: of the 14 individual committee members taking up these new positions, 11 were male and 3 female. Of the appointees, 10 were internal and 4 were external.

The Nominee Director Rules 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.

These Rules were revised and approved by the Bank's Equity Committee in March 2017. The revisions clarified certain aspects of the Rules with regard to employees serving as Committee Members on equity funds and introduced specific provisions on appointments of Nominee Directors in corporate recovery situations.

### Case study 2.6.1. Nominee Directorship

A staff member had been proposed as a potential Nominee Director on the board of a company in which the Bank had co-invested together with an equity fund. The staff member had previously been employed by a portfolio company of another fund set up by the same fund manager, and had an ongoing financial interest in the portfolio company.

It was determined that the fund manager's decisions in relation to the second fund would not have an impact on the first fund, hence there was minimal risk that the staff member would be involved as Nominee Director in decisions that could affect the value of his financial interests in the portfolio company.

The individual was also a regular attendee at the Equity Committee (the EBRD's management committee that decides on equity divestments), and under the Nominee Director Rules it was therefore necessary to seek exceptional approval for this appointment. The approval was granted on the basis that the individual had a particular expertise in relation to the investee company and sector that could not easily be replicated.

The Equity Committee granted the exceptional approval required, on the condition that the individual would not be permitted to attend any meetings of the Equity Committee at which the Bank's investment in the company was to be discussed or where such attendance could otherwise give rise to a conflict of interest.

## 2.7. Information barriers and 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 2017, OCCO created information barriers and/or provided capital markets compliance advice with regard to over 100 different projects, in order to mitigate potential conflicts of interest and ensure correct handling of material non-public information. Over 60 of these projects involved listed securities and OCCO's advice related to ensuring that the Bank was not investing or divesting while in possession of material non-public information.

In response to the EBRD's increased focus on listed investments and on the development of capital markets in the Bank's region, in 2017 OCCO continued to work extensively on further developing its capital markets compliance function. This included the creation of detailed procedures, supplemented by checklists, which must be followed whenever the Bank invests in or divests from a listed security. The procedures aim to ensure that the EBRD does not invest or divest while in possession of material non-public information and has the documentation to support that position. OCCO also formalised its approach to "wall crossings" by Treasury staff.

Moreover, as part of a cross-departmental working group, OCCO has been identifying the scope of potential revisions and enhancements to the existing Chinese Walls Guidelines. This exercise will form the basis for further work to enhance the EBRD guidelines and procedures in these areas to ensure that they remain in line with market practice.

### Case study 2.7.1. Bond financing

The EBRD was considering participating in a public bond financing by a client, where part of the proceeds were to be used by the client to acquire a listed company in which the Bank had an existing equity stake.

A potential conflict of interest was identified as a result of the EBRD having an interest in both the acquisition and the target. In addition, the team managing the Bank's existing equity stake in the target company did not agree with one of the conditions of the proposed offer.

After discussion with OCCO, Chinese Walls were imposed between the bond financing team and the team managing the Bank's equity stake.

In addition, following OCCO guidance, due diligence was conducted within the EBRD to ensure that the Bank was not in possession of material non-public information at the time of its proposed participation in the bond financing.



## 3. Training

To support the previously described policies and standards, OCCO provides extensive training to staff members, Board Officials, Nominee Directors and

third parties in the economies where it invests. This chapter describes the training courses that OCCO provided during 2017.

### 3.1. Integrity and Nominee Director training

From 2017, OCCO was able to provide its core ethics course, *Integrity Matters!* without relying on external providers. The course deals with the application of the Codes and the ethical standards and principles of the Bank. During the year, OCCO staff delivered classroom training of this course to 283 members of staff and to 10 Board Officials. In addition, OCCO launched an online training module for *Integrity Matters!* to ensure that all staff members have ready access to essential guidance and training on integrity. The online module was used by 174 members of staff.

OCCO also organises and actively participates in the EBRD's training programme for Nominee Directors. It provides a course for new and prospective NDs on their role and responsibilities under the Nominee Director Rules, their reporting obligations (including with regard to suspected Prohibited Practices) and how they should identify and manage any potential conflicts of interest, including any conflict between their obligations to the investee company and their obligations to the Bank in their role as nominee.

The courses provided in 2017 are summarised in Table 1.

Table 1: Integrity and ND training

Course description	Attendees in 2016	Attendees in 2017	Number of courses held in 2017
<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. It 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.	255	256	9
<b><i>Integrity Matters!</i> Training for Board Officials</b> As above, for all Board officials.	24	10	1
<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.	37	31	3
<b>Total</b>	<b>316</b>	<b>297</b>	<b>13</b>

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### 3.2. IDD, anti-corruption and capital markets compliance training for internal staff

In addition to mandatory *Integrity Matters!* training for new joiners, OCCO provides all project-facing staff members with a suite of compulsory training programmes on IDD, anti-corruption, capital markets compliance and related topics. These programmes include mandatory training when joining the Bank and mandatory refresher courses on integrity at three-year intervals thereafter. OCCO also provides additional, optional training to enhance the effectiveness and skills of all staff members. The department designed and delivered 12 distinct courses. In 2017, OCCO significantly reduced its reliance on external trainers and provided all courses internally, improving the consistency, relevance and usefulness of training.

During 2017, OCCO delivered IDD and anti-corruption training through 66 sessions held in the EBRD's Headquarters and Resident Offices (ROs), involving 857 Bank staff members, compared with 683 in 2016. To put this into context, the EBRD had 2,484 employees as at 31 December 2017. OCCO also made substantial improvements and revisions to its training programmes, and developed three new IDD courses: (i) *Essentials of Integrity Due Diligence*, a short course focused on the critical skills required to effectively review a project's integrity profile, (ii) *Complacent or Compliant*, a course to equip Banking teams with the skills they need to inquire into the adequacy and effectiveness of a company's internal compliance controls, and (iii) *Portfolio Operation Leader Integrity Training*, a programme that aims

specifically to help portfolio bankers monitor integrity risks and handle allegations of fraud and corruption in the EBRD's existing projects. These new courses have improved the training that the department offers to Bank staff members, building awareness and capacity in anti-corruption matters.

In addition to the above courses, in 2017 OCCO developed a new training session on capital markets compliance, delivered as part of the programme on IDD integrity which is mandatory for all new project-facing staff. Training in matters of capital markets compliance was also provided separately to current staff in eight front-office departments, to ensure awareness of the Bank's requirements for handling material non-public information in projects that involve publicly listed securities.

During 2017, OCCO staff on business trips to various ROs took the opportunities to deliver training, particularly informal refresher training, where relevant. Consequently, RO staff were able to avoid making special trips to the EBRD's London HQ for training.

The rolling-out of further training in capital markets compliance, including the development of an online training module, will remain a focus for OCCO in 2018.

The courses provided in 2017 are summarised in Table 2.

Table 2: IDD and anti-corruption training

Course description	Attendees in 2016	Attendees in 2017	Courses held in 2017
<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.	165	211	7
<b>Integrity Due Diligence Refresher Course</b> A mandatory course designed to update project-facing staff who previously received IDD training more than three years ago.	251	164	19
<b>Integrity Due Diligence Second Refresher Workshop</b> A second IDD refresher workshop for project-facing staff who attended the IDD refresher course more than three years ago.	131	106	10
<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.	24	38	4
<b>Banking Academy</b> Training provided to prospective Operation Leaders. The programme includes a half-day IDD session followed by case-study presentations, thus giving prospective OLs valuable practical experience.	72	110	7
<b>Capital Markets Compliance Training</b> Training provided to all new project-facing staff to educate them on issues in capital markets compliance.	n/a	211	7
<b>Essentials of Integrity Due Diligence</b> A 90-minute course for all professional staff involved in Bank projects. The training provides an introduction to the Bank's integrity due diligence procedures and guides bankers through effective strategies for conducting integrity due diligence.	n/a	69	6
<b>Compliant or Complacent?</b> A 90-minute interactive course for all professional staff involved in Bank projects. The training equips bankers with additional skills to assess a client's anti-corruption measures and other internal controls including compliance with AML, CFT and sanctions.	n/a	90	9
<b>Portfolio Operation Leader Training</b> This training is provided to prospective OLs. The programme includes a 1.5-hour session on how to monitor Bank projects for integrity issues and what to do if fraud or corruption is suspected. The course includes real-life case studies and a practical, interactive exercise.	n/a	69	4
<b>Total</b>	<b>643</b>	<b>1,068</b>	<b>73</b>

### 3.3. 2017 International Anti-Corruption Day

In recognition of International Anti-Corruption Day on 9 December, OCCO hosted a keynote address by Sarah Chayes, award-winning author and senior fellow at the Carnegie Endowment for International Peace. The event's audience, including members of staff and the public, was welcomed by Lisa Rosen, EBRD Chief Compliance Officer. Phil Bennett, EBRD First Vice President and Head of Client Services, delivered introductory remarks and moderated the event.



Ms Chayes is internationally recognised for her innovative thinking on corruption and its implications. Her book, *Thieves of State: Why Corruption Threatens Global Security*, discusses how, from the Arab Spring to Ukraine's Maidan Revolution, corruption has helped fuel some of the world's most significant security crises. During her presentation, Ms Chayes raised provocative questions: Are development-financing institutions inadvertently supporting corrupt regimes? How might institutions such as the EBRD adjust their operating principles in order to help curb corruption? Ms Chayes provided compelling insights from her experiences in Afghanistan, and highlighted pertinent and thought-provoking findings from her in-depth research into corruption in Azerbaijan and Honduras.

Her address was followed by a lively question-and-answer session with the audience, which comprised over 100 Bank staff members and external attendees. The event highlighted the vital role that the EBRD and its staff play in combating corruption, the joint efforts by Banking teams and OCCO, and the challenge that systemic corruption represents, as well as the need to be vigilant in due diligence.





## 4. Project Integrity

The EBRD believes that identifying and resolving issues at the project assessment and approval stages is the most effective means of ensuring the integrity of Bank transactions. OCCO plays a key role in these protective efforts, and also helps to monitor projects

post-investment. This chapter describes OCCO's approach to integrity due diligence, as well as its contribution to the Bank's transition mandate by promoting integrity and compliance in the EBRD region.

### 4.1. Ex-Ante Integrity Due Diligence

OCCO takes a robust approach to assessing prospective projects, as this is integral to the protective aspect of the department's role. IDD includes (but is not limited to) integrity risks and issues, such as:

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

Although responsibility for the integrity of EBRD projects lies with the whole Banking team as the first line of defence, where significant integrity concerns are identified during the IDD process, a potential project meeting certain criteria must be referred to OCCO. The Project Integrity team, acting as the second line of defence, provides independent advice to the Operations Committee (OpsCom) or Small Business Investment Committee (SBIC) as to whether the potential risk is acceptable to the Bank. OpsCom, consisting of representatives of most of the Bank's Vice Presidencies and advised by OCCO, decides on the acceptability of potential integrity risks before submitting the project for approval by the Board of Directors.

#### Case study 4.1.1. Project did not proceed

Integrity due diligence identified that a major shareholder in a prospective investee company had significant local political connections. This individual was also understood to be a prominent supporter of a political organisation, and to have high-level political ambitions of his own. Through additional inquiries, the Bank learned that this individual had limited experience in the sector where the prospective investee company operated, and was instead understood in the market to be expanding his business interests primarily as a means of furthering his political goals. OCCO discussed these concerns with the Banking team, in light of the significant reputational risks that could follow from such political exposure. On this basis, the Banking team decided to abandon the project.

#### Case study 4.1.2. Project did not proceed

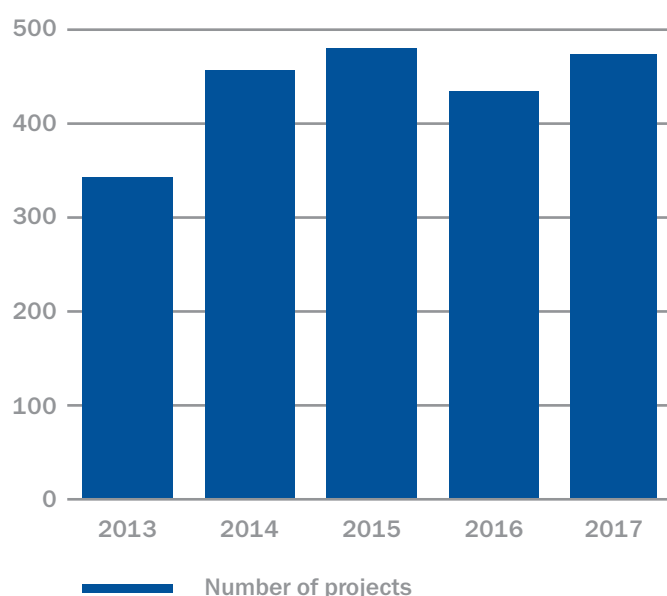
Integrity due diligence conducted by the Banking team identified that a shareholder owning approximately 20 per cent of the prospective borrower's shares had previously been associated with a company debarred by the World Bank for corruption. It was determined that, although this individual was not publicly named in connection with the debarment decision, there was evidence to suggest that he was directly responsible for the relevant company's criminal activities, which included threats of violence. Following consultations between OCCO and the Banking team, the project was abandoned.



In 2017, 470 potential projects were referred to the Project Integrity team for guidance, as compared with 435 in 2016. In many cases, this advice includes integrity conditions, such as the completion of an anti-corruption action plan that the client or Banking team must meet in order to secure OCCO's support for the project. In certain cases, OCCO may simply object to a project on integrity or reputational grounds. While it is not possible to provide a precise number of projects that do not go forward due to integrity risks alone, OCCO specifically rejected 40 potential projects in 2017, as compared with 44 in 2016. This number does not include other early-stage prospects which may have been rejected by Banking teams for integrity reasons, without requiring input from OCCO.

The number of requests for integrity advice on new projects has seen a steady increase since 2013 (when 5 members of staff reviewed 345 potential projects). This increase is due to the Bank's expansion into new regions, the growing complexity of integrity issues, and the fact that OCCO has provided more training to project-facing staff about which projects must be referred. In order to meet this rising volume, the Project Integrity team has grown in recent years to 11 staff members (as at 31 December 2017) from 9 (as at 31 December 2016). This includes an administrative assistant and an additional member of staff recruited in response to the Bank's engagement in Lebanon and in the West Bank and Gaza. The Project Integrity team also welcomed two interns, each for a period of several months during 2017.

#### Referrals to Project Integrity team



#### Case study 4.1.3. Project proceeded

The Bank was considering providing financing to an infrastructure project in one of the countries where it invests. The EPC contractor was a large construction company majority-owned by an individual with a successful track record in large construction projects. IDD revealed allegations in the media that the contractor's success derived in part from his family's strong political links. Allegedly, these links ensured that the contractor received preferential treatment in public tenders. These allegations were investigated with OCCO's involvement as part of due diligence; the Banking team confirmed that other family members had been unsuccessful in numerous tenders and that there was no indication that the contractor had participated in non-transparent or unfair tenders. Although the allegations were found to be unproven, in subsequent discussions the contractor demonstrated a willingness to strengthen its anti-corruption controls by enhancing its code of conduct and providing regular compliance training to all staff. The project proceeded, with OCCO's support, on the condition that the contractor committed to implementing these compliance improvements.

#### Case study 4.1.4. Project proceeded

The EBRD was considering a new investment with a private equity fund that is an existing client of the Bank. However, a significant investor with the client had recently been appointed to a prominent ministerial position. The ministry covered areas that overlapped with sectors where the fund invested and, therefore, it presented a heightened risk of conflict of interest. The client was proactive in bringing the appointment to the attention of the Bank and in setting out measures to help mitigate the risk of conflict of interest. The investor also confirmed to the Bank that he was in full compliance with local laws governing conflict of interest and asset declarations. The individual had a positive integrity profile and there were no concerns surrounding his source of wealth. Nonetheless, OCCO was concerned by the risk of a conflict of interest, whether real or perceived. By the time the project reached the final review stage, the shareholder had resigned from the ministerial appointment and, in the absence of other integrity concerns, OCCO was comfortable about supporting the project.

#### Case study 4.1.5. Project did not proceed

OCCO was approached regarding a project where a listed sponsor had been the subject of allegations of environmental and human rights abuses. These allegations appeared to pre-date the sponsor's initial public offering, which was understood to have brought about positive changes in the company's compliance practices. However, OCCO worked with the Banking team to commission an external integrity due diligence report to gather additional information. The external report indicated that the company still suffered from inadequate corporate governance and remained the subject of serious allegations. These allegations had also contributed to a negative reputation in the marketplace. OCCO determined that it would not be able to support the project, and on this basis it was abandoned by the Banking team.

#### Case study 4.1.6. Project proceeded

The Bank was considering investing in green bonds issued by a national utility company. The firm was a successor to an entity that had solicited and obtained corrupt payments from an international engineering company in relation to a public procurement financed by international donors and administered by the EBRD. Given its predecessor's historical issues with corruption, and despite the entity's recent reforms in corporate governance, the Bank insisted that the entity engage an independent consultant to assess the company's anti-corruption programme and recommend enhancements. This was included as a condition of financing from the EBRD, and the project proceeded with OCCO support on this basis. The entity has subsequently engaged a firm of international compliance and risk experts and has been actively cooperating with them in order to identify gaps and areas for improvement in its processes. The final report, including recommendations, is due for completion in early 2018, and the company continues to work closely with OCCO's Project Integrity and Investigations teams.

## 4.2. Enhancing OCCO's project integrity work

Starting in 2015, the Project Integrity team embarked on a programme of regional specialisation and greater engagement with regional offices in order to provide more nuanced integrity advice and increase OCCO's visibility and interaction in the economies where the Bank invests. As part of this specialisation, each member of the Project Integrity team focuses on a set number of economies and travels regularly to these places in order to build relationships and gain a deeper understanding of integrity issues from a local perspective. In 2017, this specialisation continued to deliver benefits and saw members of the team travel to 22 Resident Offices to provide training and meet with Bank staff and local partners. An effect of this regional focus has been to allow team members to develop greater familiarity with the issues facing a particular market, thus reducing OCCO's reliance on external consultants for the provision of IDD information. As evidence of this, OCCO commissioned 53 IDD reports in 2017, compared with 88 in 2014.

OCCO was also active in the Bank's advance preparations for operations in Lebanon and in the West Bank and

Gaza. This included participating in a mission to the West Bank involving senior EBRD staff, developing tailored IDD Procedures for projects in the region, and hiring an Arabic-speaking staff member to join the Project Integrity team. In 2018, OCCO will be involved in the *ex-ante* IDD review of all projects in Lebanon and in the West Bank and Gaza as the EBRD further develops its understanding of the integrity and reputational challenges in the region.

OCCO regularly reviews and updates the IDD Guidelines and IDD Procedures to ensure that the EBRD integrity policies respond to evolving integrity risks, the increasing complexity of integrity requirements and the ever-changing global landscape with regard to integrity. Examples of this work include amending our IDD Procedures in the aftermath of the Panama Papers and the Paradise Papers to capture new information about individuals who may present heightened risks with regard to potential tax evasion or aggressive tax practices. As part of a programme of continuous improvement, these regular updates also ensure that OCCO takes into consideration lessons learned.

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### 4.3. Capacity-building

Integrity and compliance are central to the Bank's efforts to promote transition in the EBRD region, in particular the goal for these economies to become well-governed, which is one of the EBRD's six "transition qualities". In recent years, OCCO has endeavoured to expand the support it offers clients in compliance and anti-corruption efforts, and to engage more extensively in promoting norms of compliance and integrity beyond the Bank's projects. These efforts have included support in the development and implementation of anti-corruption action plans, as well as organising seminars and training on AML, CFT and sanctions compliance.

An anti-corruption action plan (or compliance action plan, as applicable) involves a client working with OCCO to commission an external consultant to review the client's compliance policies and procedures, recommend improvements where necessary, and help to implement and monitor these improvements. An action plan may be appropriate where a client's policies or procedures have been found to be inadequate relative to the risks involved in their operations, and where the client has demonstrated a capacity and willingness to reform. Required progress in accordance with the action plan will generally be included in the project's legal documentation, ensuring that the plan is implemented before the disbursement of funds, thereby mitigating integrity risks for the client and the EBRD. These action plans significantly increase company transparency and set the tone for other industry players in the relevant country or sector. The positive demonstration effect helps advance transition, specifically, the goal of good governance.

In 2017, OCCO implemented or made substantial progress on anti-corruption or compliance action plans with 21 different clients, including large state-owned enterprises and companies working in the transport, agribusiness and natural resource sectors. This compares with five such plans in 2016. In addition to the improvements that these plans bring about at the client level, in the wider marketplace they demonstrate the importance of effective compliance. Several clients have indicated that the compliance improvements they achieved through an action plan have given their business a competitive advantage and have enabled them to attract a larger share of foreign direct investment.

Importantly, in 2017, OCCO worked with the EBRD's Economics, Policy and Governance Department to ensure that the improvements brought about by these action plans are captured in the "transition impact" ratings that the Bank applies to every project. The inclusion of anti-corruption or compliance action plans in transition ratings is a means of explicitly quantifying their contribution to making economies "well-governed", one of the EBRD's six "transition qualities". This further incentivises Banking staff to make anti-corruption improvements part of their projects.

The Project Integrity team's capacity-building work is not only relevant to client-specific initiatives. Members of the team have presented as anti-corruption experts at seminars in Athens and at the German Council on Foreign Relations. OCCO also remains active, in coordination with the EBRD's Vice Presidency, Policy and Partnerships (VP3) and Banking teams, in international efforts to address the threats posed by de-risking. De-risking describes a situation in which international banks may reduce their activities in countries where they perceive the risks relating to AML, CFT and international sanctions to be too great. The resulting withdrawal from jurisdictions that are perceived as being excessively risky limits financial access and may threaten financial stability where it results in the concentration of large business volumes within a smaller number of financial institutions. In 2017, a representative from OCCO was invited to chair the Financial Stability Board meeting at the International Monetary Fund (IMF) on AML and CFT in correspondent banking. OCCO also cooperates closely with the EBRD's Trade Facilitation Programme, including delivering training on the subject of de-risking to the Bank's partner financial institutions at four seminars in Austria and Cyprus in 2017.

Since 2015, OCCO has been committed to providing training initiatives for third parties through seminars and consultancies. The principal aim of the seminars and consultancies alike is to target key personnel from financial institutions and create bespoke training that helps them better understand their obligations and how to be effective with limited resources. Consultancies are implemented within selected financial institutions and involve commissioning consultants to assist the institutions in enhancing their AML and CFT controls.

In 2017, OCCO supported two consultancies in financial institutions in Moldova and Mongolia, in coordination with the Banking teams. Both were well received and produced recommendations on reforms that were subsequently implemented by the institutions. The department also secured agreement to deliver a further three consultancies. All of these events were funded by the EBRD Shareholder Special Fund, the Ukraine Stabilisation and Sustainable Growth Multi-Donor Account, and by the governments of Luxembourg and the United Kingdom.

OCCO's thematic capacity-building work is also addressed in section 6.1 of this Report.

#### Case study 4.3.1. Project proceeded

The Bank was considering providing financing to a state-owned electricity holding company in the southern and eastern Mediterranean (SEMED) region. Integrity due diligence found that the company had recently been implicated in a corruption incident in which representatives of the firm were found to have accepted bribe payments in the context of procurement decisions. Through discussions with the company's management the Bank determined that, although there was a desire on the part of management to improve the company's practices, internal controls were inadequate in preventing corruption and the company lacked an understanding of the risks involved in its operations. Because management had a willingness and capacity for reform, the Bank engaged a consultant to assess the company's controls and recommend enhancements. The achievement of certain reform objectives was then included as a condition of disbursements under the EBRD's loan agreement, with the company also being required to report regularly on its progress. The loan was approved on this basis, with OCCO's support. Following extensive discussions and multiple on-site visits by OCCO, substantial progress has since been made at the company, including the appointment of a new chief compliance officer, the adoption of a code of conduct, the completion of a risk assessment and the implementation of a whistleblower mechanism. The company is now a compliance standard-bearer for SOEs in the region.

## 4.4. 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 also reviews the information provided by the Banking Department for all projects that have passed final review by OpsCom, to monitor compliance with IDD Procedures. Of these projects, 20 per cent are then selected for comprehensive assessment to confirm the adequacy of the IDD conducted by the relevant Banking teams, including the adequacy of the disclosure of integrity issues to decision-making committees and the Board. Monitoring carried out for each period of the preceding 12 months produced satisfactory results for the projects monitored. Of the 33 projects subject to comprehensive assessment during this period, 2 were found to have deficiencies, although in neither case would these issues have affected the outcome of the project. The concerns were brought to the attention of the relevant Banking team and, where warranted, to the attention of EBRD senior management.

## 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. In addition, the Bank's Integrity Risks Policy mandates that the EBRD take all necessary steps to ensure that in the performance of their responsibilities, Bank staff and Board Officials act in compliance with the highest standards of integrity so as to avoid or minimise risks arising out of or in connection with the Bank's activities.**

Under the EBRD's *Integrity Risks Policy* and the Terms of Reference for OCCO, the department is responsible for

investigating allegations of fraud and corruption in the Bank's projects as well as for investigating allegations of non-observance of the Bank's rules and standards of ethical behaviour and integrity on the part of Bank staff. Consequently, OCCO's Investigations team conducts two distinct types of investigation: investigations of fraud and corruption in relation to Bank-financed activities under the *Enforcement Policy and Procedures*, and investigations of allegations of staff misconduct under the *Conduct and Disciplinary Rules and Procedures*.

This chapter describes the work of OCCO's investigations team throughout 2017.

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

The EBRD's *Enforcement Policy and Procedures* (EPPs) are the policy and procedures that concern the investigation and, if appropriate, sanctioning of parties that are alleged to have engaged in Prohibited Practices in relation to Bank assets or a Bank project and sanctioning of parties on whom a Third Party Finding (as defined under the EPPs) has been imposed.

The EPPs define Prohibited Practices as comprising Corrupt Practices, Fraudulent Practices, Coercive Practices, Collusive Practices, Obstructive Practices, Theft and Misuse of EBRD Resources or EBRD Assets in relation to Bank Assets or a Bank Project.



#### Enforcement Policy and Procedures

##### Revision of the EPPs

In 2015, the EPPs were substantially revised to strengthen the due-process rights of participants in the enforcement process and to make the process more efficient. These changes have been successful. In particular, the introduction of settlements has enabled the Investigations team to use the function to contribute to transition by focusing on remediation as an element of settlement. Settlement Agreements are both an expedient method of resolving matters and a means

of achieving durable and meaningful improvements to companies' anti-corruption efforts through the imposition of robust anti-corruption action plans as a condition of settlement. Since the 2015 amendments to the EPPs, OCCO has entered into six formal Settlement Agreements. In 2017, the department continued to monitor the implementation of the various anti-corruption action plans that are required under the Settlement Agreements.

Based on OCCO's experience in applying the EPPs since 2015, it determined that a number of minor amendments were required to ensure that the Bank's enforcement process continues to operate fairly and efficiently. To this end, in 2017, OCCO introduced – and the Board of Directors approved – further amendments to the EPPs.

In order to allow the EBRD to respond appropriately to allegations of Prohibited Practices that affect the Bank's property in circumstances when the impugned conduct is not otherwise connected with a Bank "activity and project" (as defined in the previous version of the EPPs), the scope of the 2017 EPPs was increased to cover also Prohibited Practices with regard to the EBRD's property and assets (which include the Bank's name, intellectual property and registered marks). In addition, changes were made to the format of the EPPs to reflect new templates used for all Bank policies, as well as clarification on rules concerning suspensions; notification to the EBRD Board; and how the Bank processes Affiliates of a Respondent.



In view of the revision of the EPPs in 2017, OCCO updated its practice note on Settlement Agreements and how these fit within the Bank's Enforcement Regime. This revised note is available at:



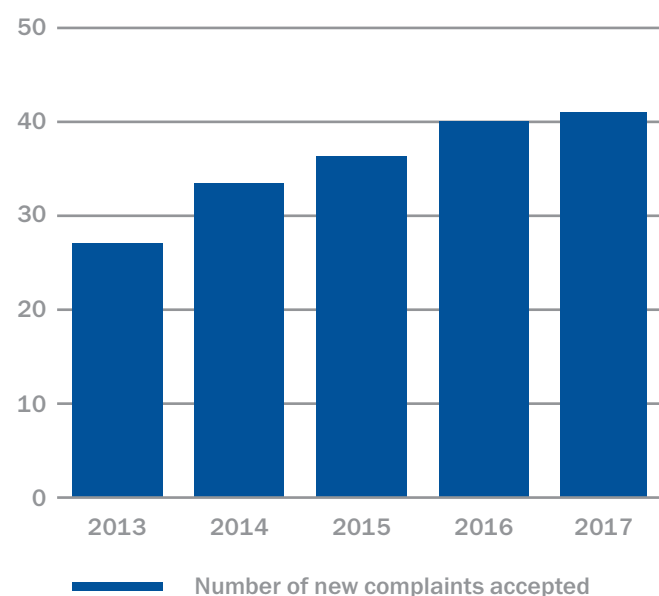
[Note on the EBRD's Enforcement Processes, including Settlement Agreements](#)

## Investigations under the EPPs

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

During 2017, OCCO accepted 41 new complaints alleging the occurrence of a Prohibited Practice in either the EBRD's public sector procurement or private sector operations, and carried forward 17 complaints that had been received during the preceding reporting periods. Of the 58 matters that the Investigations team worked on in 2017, in 27 cases the matter did not proceed beyond preliminary assessment and in 9 cases the matter was closed following a formal investigation (see Table 3 on page 25).

### EPP cases



### Case study 5.1.1. How transforming one company improved business integrity in the wider market

In 2015, the EBRD imposed sanctions on a Company A, and its holding company, Company AH, following an investigation which found that Company A had committed a Prohibited Practice in order to secure an EBRD-financed public sector procurement contract to refurbish a local power plant. As part of those sanctions, Company AH was conditionally non-debarred<sup>3</sup> for three years and required to adopt and implement a group-wide anti-corruption action plan with the assistance of a compliance monitor. In early 2018, Company AH is expected to be released from the conditional non-debarment, having implemented a comprehensive programme throughout Company AH and its group companies, including Company A. Some highlights of Company AH's action plan for enhanced anti-corruption include:

- a compliance structure with a compliance officer and four full-time managers responsible for and dedicated to compliance issues
- an enhanced code of business conduct distributed to all employees, third-party agents and consultants
- live and/or online training on the code of business conduct to all high-risk employees, provided in multiple languages
- a risk-based due diligence system before engaging third-party agents and consultants that is also applied to existing business partners
- an anonymous hotline reporting system with messages from senior management to support its adoption
- commitment from senior management, including the CEO and compliance officer, to updating and further enhancing the programme.

Company AH reported that, as a result of these enhancements, it received praise from business partners, who recognise that it is becoming a regional leader in anti-corruption compliance. Moreover, foreign investors have commented favourably on Company AH's anti-corruption compliance programme and the firm was recently able to partner with a major multinational company on several regional projects.

<sup>3</sup> A conditional non-debarment is a sanction that EBRD will typically impose on a parent entity that has not appropriately supervised and monitored its subsidiaries, and therefore has failed to prevent a subsidiary from engaging in a Prohibited Practice. If an entity satisfies the conditions imposed it will avoid being debarred.

### Case study 5.1.2. Beyond sanctions

The EBRD's ability to publicly sanction entities will always be a critical component of its response to fraud and corruption in its projects. However, when situations permit, OCCO will seek to remediate an impugned entity by improving its internal compliance and governance as an adjunct or supplement to other enforcement actions.

In the three recent cases cited below, the entities' willingness to undertake these initiatives has been appreciated and has resulted in positive reforms.

#### Client 1

In June 2016, the EBRD entered into a Settlement Agreement with a Company B in eastern Europe to resolve allegations of facilitation payments to a local authority official in order to secure land registration. As part of the Agreement, the Company agreed to undergo a three-year period of conditional non-debarment and to implement an anti-corruption action plan, as well as to engage an independent anti-corruption monitor. As a result of this Agreement, in 2017 the Company:

- developed an anti-corruption policy, with zero tolerance for corruption and bribery
- designed a comprehensive corporate compliance programme that is on track for implementation
- appointed a compliance officer with anti-corruption responsibility, supported by a sizeable compliance team
- engaged a monitor to supervise and advise on the implementation of the corporate compliance programme
- incorporated a no-bribe pledge as a clause to all contracts with third-party business partners.

#### Client 2

In July 2016, the EBRD entered into a Settlement Agreement with a Company C to resolve allegations of facilitation payments to national officials in relation to, among other things, court proceedings, customs and tax matters. As part of the Settlement Agreement, the company agreed to undergo a three-year period of conditional non-debarment, and to implement an anti-corruption action plan. In 2017, the Company:

- developed an anti-corruption policy, with zero tolerance for corruption and bribery
- implemented policies relating to conflict of interest, reporting, and procurement or supplier selection
- established an internal audit function and appointment of a head of internal audit with responsibilities for anti-corruption compliance
- initiated the implementation of an anonymous whistleblowing hotline
- completed an external anti-corruption report and developed a plan to address audit findings.

#### Client 3

In January 2017, the EBRD entered into a settlement with a Company D to resolve allegations of facilitation payments to national officials in order to receive VAT refunds from 2014-16. As part of the settlement, the firm was subject to a three-year period of conditional non-debarment, and required to implement an anti-corruption compliance programme to be verified through internal and external audits. To date, the company has made several improvements, having:

- developed an anti-corruption code of conduct with zero tolerance for corruption and bribery
- provided anti-corruption-specific training to senior management and board members with ongoing training for other company employees
- completed two internal anti-corruption audits and appointed an external auditor to conduct an external anti-corruption audit.

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### **Public sector investigations**

In 2017, OCCO registered 20 new complaints of a Prohibited Practice in public sector procurement exercises. These complaints typically allege malfeasance in connection with public tenders, including corruption, fraud or collusion. Almost half of these matters were referred directly by Bank staff members who were responsible for monitoring these tenders (9 matters), while 5 were referred by investigative agencies in national or international authorities, and 6 were from external parties, including 2 that were received anonymously via the compliance reporting mailbox (compliance@ebrd.com). In addition to these new complaints, OCCO carried forward 9 matters from previous periods where it had not yet completed its investigative action.

Of the 29 public sector matters worked on in 2017, 10 were closed after a preliminary assessment; 5 were closed after a formal investigation; 2 were referred to the Bank's Enforcement Commissioner for enforcement action; 3 resulted in other remedial action undertaken by national authorities; and 9 are subject to ongoing investigations by OCCO.

### **Private sector investigations**

In 2017, OCCO registered 21 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.

Twelve of these matters were reported directly to OCCO by external parties, 6 of which were received through the Bank's compliance mailbox. Nine matters were referred to OCCO directly by Bank staff members, including 3 matters that were referred from the team that manages the Bank's Project Complaint Mechanism. Along with these new complaints, OCCO carried forward 8 matters from previous periods where it had not yet completed its investigative action.

Of these 29 private sector matters actioned, 17 were closed following a preliminary assessment and a further 4 were closed following a formal investigation; 1 matter was referred to the Bank's Enforcement Commissioner for enforcement action; 1 resulted in an entity agreeing to remove misleading information from its website; 3 matters were resolved by settlement with the Bank's client agreeing to enter into an anti-corruption action plan; and 4 are subject to ongoing investigations by OCCO.

### 5.1.1. Enforcement Commissioner matters

In 2017, the Bank's Enforcement Commissioner issued the following determinations following OCCO investigations.

- In January 2017, the Enforcement Commission published the decision in a matter that OCCO forwarded in December 2016. In this matter, 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 agreed to this sanction, which has now been disclosed on the EBRD website. In addition, the Bank issued a Notice under the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD) requesting the cross-debarment of these two entities and one individual; all of them have subsequently been cross-debarred.
- Following an investigation into allegations that six entities and six individuals had engaged in a collusive practice when submitting tenders for a procurement contract to supply crushed stone in connection with an EBRD project, in 2016 OCCO recommended to the Enforcement Commissioner to debar these entities and individuals for a period of four years. In 2017, the Enforcement Commissioner issued his decision, agreeing with OCCO's recommendation, which has now been published on the EBRD website. Furthermore, the Bank issued a Notice under the AMEDD requesting the cross-debarment of these six entities and six individuals, which have subsequently been cross-debarred.
- Following a request by OCCO, in 2017 the Enforcement Commissioner applied the decision of a national court to convict four individuals for fraud due to 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. The Enforcement Commissioner imposed this sanction effective from March 2017 until March 2021 and it has now been disclosed on the EBRD website.
- Following the completion of a formal investigation, OCCO requested that the Enforcement Commissioner issue an Enforcement Notice to an entity involved in the construction business. OCCO is requesting that the entity be debarred for a period of three years for engaging in a Fraudulent Practice and alleges that this entity has submitted false financial information in order to fraudulently represent that it meets the qualification requirements for the award of a Bank-funded public sector contract to construct a road. A decision by the Enforcement Commissioner is expected in early 2018.

**Table 3: Complaints about Prohibited Practices**

	2016	2017
New complaints reported to OCCO	40	41
Complaints carried forward from previous periods	18	17
Complaints closed at preliminary assessment or formal investigation	31	36
Complaints resulting in enforcement action	8	3
Complaints resulting in other remedial action (for example, referrals to national authorities, cease-and-desist undertakings)	2	6
Complaints carried forward to new period	17	13
Number of individuals and entities debarred by EBRD Enforcement Commissioner	16	6
OCCO personnel assigned to investigate fraud and corruption complaints	2.5	2.5

### 5.1.2. Cross-debarments

In 2017, in keeping with the Agreement for the Mutual Enforcement of Debarment Decisions among the EBRD, the African Development Bank Group, the Asian Development Bank, the Inter-American Development Bank and the World Bank Group (available at [www.ebrd.com/downloads/integrity/Debar.pdf](http://www.ebrd.com/downloads/integrity/Debar.pdf)), the Bank cross-debarred 91 corporations and 28 individuals following debarment decisions by those institutions.

Moreover, the Bank issued two Notices under the AMEDD requesting the cross-debarment of eight entities and seven individuals. 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 November 2017, an individual who had assisted a large multinational engineering company that 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 individual will be sentenced at a later date once a verdict has been reached on two co-defendants who are currently subject to criminal prosecution. The prosecutor explicitly noted that the result was substantially facilitated by work that has been done by OCCO as well as by the Bank's Procurement Department. This work included a review of a large volume of documents and the drafting of an extensive statement from an expert witness.
- In 2017, OCCO was alerted to several serious allegations of money laundering and corruption in a regional financial institution following a number of arrests by the national authorities as well as concerns that had been raised by the relevant central bank. Following advice and assistance from the Investigations team, the entity commenced an initiative to enhance its existing integrity compliance programme to ensure compliance with internationally accepted principles and standards and to maintain adequate internal controls. The institution engaged a consultant to assess its existing integrity compliance programme and to provide tailor-made recommendations on measures for enhancing the programme. Based on the recommendations, the entity – with assistance from the consultant – will prepare an action plan to implement those measures. OCCO is following the project closely and, where required, providing guidance. This is an ongoing project, in which it is hoped that the EBRD can create a demonstration effect – not only within the institution but also within the wider financial sector in which the institution operates.

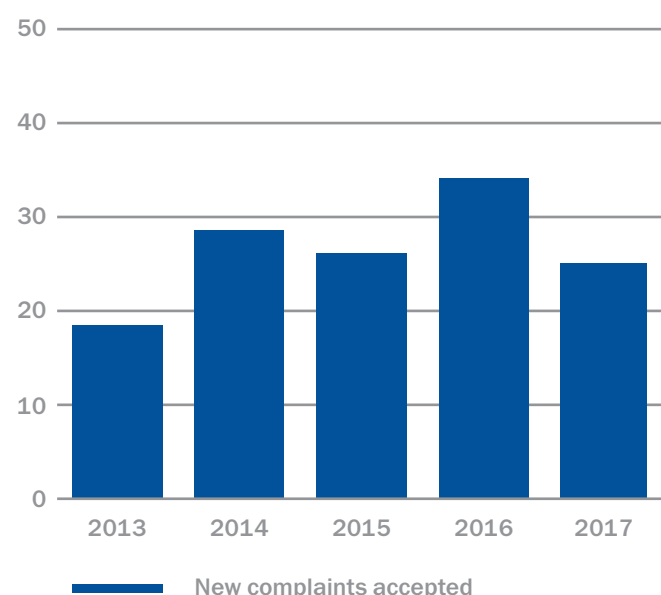


## 5.2. Investigations under the Conduct and Disciplinary Rules and Procedures

OCCO investigates allegations of staff misconduct in accordance with the *Conduct and Disciplinary Rules and Procedures* (CDRPs), which were last revised in 2015.

In 2017, OCCO accepted 25 new actionable complaints of misconduct on the part of EBRD staff, carrying forward a further three matters from 2016. Of these, 19 complaints proceeded to formal investigation under the CDRPs, 13 of which related to alleged breaches of the Bank's Code of Conduct and 6 were referred to OCCO under the Harassment-Free and Respectful Workplace Procedures (RWPs), by the Managing Director for Human Resources. Just 2 matters remained under investigation at the end of 2017 (see Table 4).

### Staff misconduct cases



All allegations of staff misconduct are investigated in accordance with the CDRPs. The CDRPs clearly distinguish the role of the Chief Compliance Officer (CCO) as fact-finder with regard to complaints of misconduct and the Managing Director for Human Resources (MD HR) as decision maker, in relation to any disciplinary

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

OCCO may receive complaints of suspected misconduct from persons internal or external to the Bank, including anonymous sources. In addition, the MD HR may refer matters for investigation, in accordance with the Bank's RWPs, which set out processes for dealing with improper interpersonal behaviour by Bank staff.

Introduced in 2016, the RWPs sought to ensure that the EBRD continued to offer staff a safe and respectful working environment, while emphasising the role of the Human Resources Department in handling improper behaviour that does not constitute misconduct. At the same time, the RWPs have effectively enabled OCCO's Investigations team to focus more on staff behaviour that could constitute misconduct and integrity concerns related to Bank projects and counterparties.

Having established that the suspected misconduct complained of falls within the ambit of the CDRPs there are, in general terms, three possible outcomes of the investigation process:

1. no further action, based on the lack of reliability and/or seriousness of the allegation
2. recommendation to the MD HR for the provision of a non-disciplinary written warning
3. recommendation to the MD HR for formal disciplinary action.

Further action, such as referral to law enforcement agencies, may be taken on a case-by-case basis, as appropriate.

A summary of the outcome of matters received by OCCO under the CDRPs in 2017 is shown in section 5.2.1.

### 5.2.1. Summary of investigations into allegations of staff misconduct

Of the 25 new matters OCCO accepted in 2017 and the 3 matters carried forward from 2016, 19 complaints advanced to a formal OCCO investigation, with 7 matters being closed following an initial inquiry and 2 matters remaining open at the end of the period (see Table 4). Of the matters that were completed in 2017:

- OCCO conducted four separate formal investigations into the submission of fraudulent claims for the reimbursement of medical expenses through the provider of the EBRD's medical insurance plan. Two of the investigations resulted in recommendations for disciplinary action, with one staff member's employment being terminated and a decision pending in the second matter. In one investigation, the staff member separated from the Bank during the course of the investigation. In the fourth matter, the investigation 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.
- A formal OCCO investigation into a staff member who was engaged in a significant breach of Rule 3 of the Code of Conduct (Conflict of Interest), and knowingly provided false information during the investigation, resulted in recommendations for disciplinary action under Part III of the CDRPs. The MD HR subsequently terminated the individual's employment with the EBRD.
- Five formal investigations into allegations of breaches of Rule 2(d) of the Code of Conduct (Harassment and Bullying), referred to OCCO under the RWPs, resulted in three recommendations for non-disciplinary written warnings to be provided to the staff members concerned. In a fourth matter, the staff member concerned separated from the Bank during the course of the investigation. In the final matter, it was determined that the conduct complained of did not amount to misconduct.
- Five separate investigations, into allegations of breaches of Rule 3 of the Code of Conduct (Conflict of Interests), were found not to amount to misconduct.
- A formal OCCO investigation into significant misrepresentations by a staff member, regarding their academic qualifications, resulted in recommendations for disciplinary action under Part III of the CDRPs and disciplinary measures being imposed by the MD HR. The MD HR subsequently issued a written censure to the staff member and instructed him to take immediate administrative actions to correct the misrepresentations. Shortly after the MD HR had imposed these actions the staff member separated from the Bank.
- A formal investigation into a breach of the Bank's *Travel and Expenses Policy* resulted in a recommendation by OCCO for non-disciplinary written warnings to be given to the staff members concerned. Five further separate allegations of breaches of Rule 1 of the Code of Conduct (General Standard of Conduct), were found not to amount to misconduct.
- An OCCO investigation into multiple breaches of the Code of Conduct, (Rule 3 (Conflicts of Interest), Rule 7 (Gifts and Hospitality) and Rule 10 (Confidentiality)), resulted in a recommendation for a non-disciplinary written warning to be provided to the staff member concerned. However, the staff member separated from the Bank prior to the provision of the warning by the MD HR.
- One OCCO investigation into a breach of Rule 10 of the Code of Conduct (Confidentiality) was closed, after the allegation was found not to be sufficiently serious to warrant further investigation under the CDRPs.
- An OCCO investigation into a serious criminal allegation against a staff member was brought to the attention of the Bank by the UK authorities in 2016 and the staff member was immediately suspended, with their access to the premises blocked. The matter was concluded when the staff member was convicted at a jury trial. Based on the decision of the court, OCCO recommended disciplinary action under Part III of the CDRPs. The staff member subsequently separated from the Bank.

**Table 4: Misconduct complaints 2016-17 – comparative analysis**

Misconduct complaints	2016	2017
New complaints of staff misconduct reported to OCCO	35	25*
RWP referrals from MD HR	3	6
Complaints closed with no finding of misconduct	25	14†
Staff who separated from the Bank during the course of an investigation	1	4
Referred to MD HR for written warning	3	5
Referred to MD HR for disciplinary action	4	5
OCCO personnel assigned to assist with staff misconduct matters	1.5	1.5

\* Plus three matters carried over from 2016. † Includes two matters carried over to 2018.

### 5.2.2. Trends in misconduct investigations

As in 2016, six matters investigated in 2017 involved alleged breaches of Rule 2(d) (Harassment and Bullying), of the Code of Conduct, all of which were referred to OCCO by the MD HR under the RWPs. At 24 per cent of the total matters reported to OCCO during the reporting period, this was a significant reduction compared with the percentage of reported incidents before the introduction of the RWPs (in 2015, allegations of harassment and bullying accounted for 55 per cent of matters reported to OCCO). These figures suggest that the RWP function continues to play a meaningful role in reducing the number of bullying and harassment cases that OCCO is required to process, while also providing Bank staff with an effective means by which to resolve in a less formal manner incidents of improper interpersonal behaviour.

OCCO has noted a significant increase in the number of investigations involving staff members engaging in medical benefits and/or expenses fraud under the Bank's medical plan. In view of this, in September 2017, the CCO issued a joint communication with the MD HR, reminding all staff of their obligations under the Code of Conduct, while informing them that all reports of fraud, brought to OCCO's attention, would be thoroughly investigated and acted on.

### 5.2.3. Complaints of retaliatory conduct

In 2017, OCCO received one complaint of retaliatory acts for having carried out protected activities (in other words, related to whistleblowing). Following a review of the matter, OCCO determined that the purported retaliatory action was not an act of "retaliation" as defined in the Bank's Conduct and Disciplinary Rules and Procedures. As mentioned in section 2.4, OCCO intends in 2018 to issue a new standalone policy which will serve to bring all of the aspects of the Bank's current approach to whistleblowing into a single document.

#### 5.2.4. Cooperation with enforcement authorities external to the Bank

In addition to the above matters, OCCO cooperated with law enforcement authorities in the United Kingdom in relation to one matter involving a referral the Bank made to the City of London Police in 2010.

In June 2017, at the Central Criminal Court (the Old Bailey), London, and following a parallel investigation by the City of London Police's Overseas Anti-Corruption Unit and the United States Federal Bureau of Investigation, Mr Andrey Ryjenko, a former staff member, was convicted and sentenced to a six-year term of imprisonment, for receiving multi-million dollar bribes in a Bank financed project. OCCO's assistance to the authorities in this matter over a period of 7 years was extensive and including locating, reviewing and releasing approximately 112,000 documents and assisting with arrangements for the authorities to interview and obtain 26 witness statements from EBRD staff.

In connection with the above matter, in July 2017 Mr Dmitry Harder was sentenced in the US Federal Court in Philadelphia to two counts of violating the US Foreign Corrupt Practices Act (FCPA). As part of this plea, the individual agreed to forfeit US\$ 1.9 million and has been sentenced to 60 months of imprisonment. OCCO's assistance with this matter included obtaining, collating and releasing approximately 14,000 pages of documents to the US authorities, providing detailed briefings to the US authorities and facilitating the interviewing of Bank personnel who were witnesses in this matter.

#### 5.2.5. Resident Office inspections

The Bank currently maintains 62 Resident Offices (ROs) and other facilities throughout its region. In 2012 and 2016, as a result of unconnected reports of suspected fraudulent activity, OCCO conducted two large-scale investigations into the administration and financial management of two separate ROs. Both investigations resulted in recommendations for disciplinary action, under Part III of the CDRPs, with the MD HR subsequently terminating the employment of three staff members.

Common to both investigations were the discovery of internal control weaknesses within the ROs, which either facilitated or allowed for the concealment of the fraudulent acts.

In 2017, in order to better review and assess the extent of compliance with the Bank's internal control procedures and in close cooperation with Banking, OCCO undertook unannounced inspections of two ROs. This new initiative is part of OCCO's proactive approach to deterring misconduct and assisting Banking teams by identifying and strengthening areas of vulnerability in RO controls.

The first two inspections took place in the Bishkek and Skopje ROs. OCCO is pleased to report that in both cases, there were no findings of fraudulent activity or corruption. However, there were observations regarding standard operating procedures and policies, where ROs may remain vulnerable to risks. Several recommendations aimed at strengthening the ROs' internal control environments have been provided as a result of these inspections.

The EBRD intends to undertake two further inspections in 2018. In the meantime, OCCO continues to work with Banking teams, Operational Risk Management team and Internal Audit, in order to ensure that the findings from the two inspections are shared appropriately, responded to and that effective action is taken.

#### 5.2.6. Staff Misconduct case studies

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, *inter alia*, the Code of Conduct and the CDRPs.

The two case studies that follow outline the actions of two former Bank employees who, aware of the provisions of the EBRD *Staff Handbook*, made decisions in relation to its provisions that were to have serious consequences. While the circumstances and timelines of each case study are quite different, they share an important feature: in each case, the employee's actions represent a breach of trust, which fell short of the standards of integrity and honesty that the EBRD is entitled to expect of its staff.

#### Case study 5.2.6.1. Conflict of interest

OCCO was notified of concerns that a fixed-term EBRD employee, Mr A, may have also been employed by, or acting as a consultant for, his previous employer, a Bank client.

During a formal OCCO investigation, Mr A acknowledged that he had assisted his previous employer as part of a handover process and while employed by the Bank. He asserted that this was an informal arrangement, for which he was not remunerated by his former employer.

However, in the course of its investigation, OCCO discovered evidence showing that, while employed by the Bank, Mr A had in fact entered into a formal contract with his previous employer, under the terms of which he had been receiving regular payments for activities that conflicted with his role at the EBRD. The formal OCCO investigation resulted in a recommendation to the MD HR for disciplinary action against Mr A for multiple breaches of the Code of Conduct:

- Mr A engaged in a serious conflict of interest, or an appearance of a conflict of interest (Rule 3 of the Code of Conduct).
- He engaged in an outside activity without requesting or receiving appropriate authorisation from the Bank (Rule 4 of the Code of Conduct).
- Mr A knowingly provided false or misleading information during an OCCO investigation (Rule 1 of the Code of Conduct).

The subsequent disciplinary process, conducted in accordance with Part III of the CDRPs, resulted in Mr A's employment with the Bank being terminated.

#### Case study 5.2.6.2. Fraud on health insurance

As a regular employee of the EBRD, Ms B was entitled to claim for the reimbursement of legitimate medical expenses under the Bank's medical plan

Following the submission of several relatively high-value claims by Ms B, the Bank's health insurer undertook a routine post-settlement review of these and other similar claims. As part of their review, which covered a three-year period, the health insurer contacted a number of medical service providers, establishing that multiple invoices, submitted by Ms B for reimbursement, were in fact fraudulent and the medical services that they related to had not been provided to Ms B or to her dependents. In accordance with the terms and conditions of the Bank's medical plan, the matter was reported to OCCO.

During the formal investigation – and having gathered additional evidence – OCCO interviewed Ms B who admitted creating and submitting entirely false invoices to the health insurer. The investigation resulted in a recommendation to the MD HR for disciplinary action against Ms B, for the dishonest submission of multiple fraudulent claims to the health insurer, for which she was not entitled to reimbursement, this being a serious breach of Rule 1 of the Code of Conduct.

The subsequent disciplinary process, conducted in accordance with Part III of the CDRPs, resulted in Ms B's employment with the Bank being terminated and the overpaid funds being recovered by the health insurer.



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## 6. International cooperation

**This chapter describes OCCO's international cooperation throughout 2017.**

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 2017 are summarised below.

### 6.1. Intergovernmental initiatives

OCCO continued to engage with key intergovernmental initiatives during 2017, including those that specifically focus on AML or CFT initiatives, such as the FATF, MONEYVAL and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG). The EBRD has observer status in each of these bodies and, as such, a representative of OCCO regularly attended their meetings.

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 and/or 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 and CFT procedures to mitigate this risk.

In 2017, this was particularly relevant to the Bank's operations in Bosnia and Herzegovina and in Tunisia. In addition, in 2017, a member of OCCO's Project Integrity team acted as the AML and CFT expert on the mutual evaluation team for Albania, which is a MONEYVAL

member country, deepening the Bank's cooperation with the organisation.

To underscore the importance of anti-corruption reforms in the EBRD region and as part of its efforts to build anti-corruption capacity, 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 2017, another member of the Project Integrity team acted as an independent assessor as part of the delegation tasked with preparing the country report on Ukraine, in the context of the ACN's fourth-round monitoring report on anti-corruption reform efforts. In 2017, jointly with VP3, the OECD and the Council of Europe, OCCO organised and presented at business integrity seminars in Serbia and Ukraine, with the next seminar to take place in Georgia in early 2018. These seminars, which are part of a continuing programme, contribute to the Bank's goal of promoting business integrity and compliance in the wider EBRD region.

OCCO also worked with the EBRD's Procurement Department and the International Federation of Consulting Engineers (FIDIC) to convene a workshop for a select group of anti-corruption authorities in Ukraine.

### 6.2. Cooperation with multilateral development banks

OCCO maintains close bilateral and multilateral relationships in the field of anti-corruption with other multilateral development banks (MDBs). Alongside the World Bank Group, European Investment Bank, the African Development Bank, Asian Development Bank and Inter-American Development Banks, OCCO is an active participant in the meetings of the MDB Heads of Integrity.

This forum was initially established as a task force in 2006 to harmonise Prohibited Practices. Since then, it has evolved into 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), to which the Bank is a signatory. The forum also raises awareness of MDB anti-corruption efforts.

In 2017, the three meetings of the MDB Heads of Integrity focused on more effective sharing of information, cooperation in 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 on the margins of the 17th International Anti-Corruption Conference, which was held in Long Island, New York State, United States of America, where the MDBs also presented a joint panel on enabling integrity through incentives, innovation and international cooperation. OCCO hosted another meeting at EBRD Headquarters.

In March 2017, representatives from OCCO attended the MDB Private Sector Integrity Meeting in Barbados. This meeting provided an opportunity to share effective practices in evolving areas of concern including, in particular, tax avoidance and evasion. On the margins of this meeting, OCCO participated in a two-day Heads of Integrity Due Diligence (HIDD) meeting. This is an annual event where the Heads responsible for Integrity Due Diligence within the MDBs meet and discuss common themes. The HIDD group was initially established in

2016 and OCCO retains a lead role in the efforts to harmonise and, where possible, enhance efficiencies in due diligence practices and facilitate the effective sharing of information.

Other relevant meetings in 2017 where representatives of OCCO attended and presented on the theme of anti-corruption and proactive compliance included

- the Conference Of The States Parties to the United Nations Convention Against Corruption
- the Annual Conference of International Investigators in New York
- the Ethics Network of Multilateral Organizations (ENMO) Conference in Rome
- the Annual Meeting of Economic Crime Agencies Network in London
- the European Chief Compliance Officers' Annual Meeting in Thessaloniki
- the C5 Anti-Corruption Practitioner Conferences in Sweden and in London
- Cambridge International Symposium on Economic Crime.

### 6.3 Other international cooperation activities

As in previous years, the EBRD helped to support the work of standard-setters by working closely with governments, civil society representatives and the private sector.

In October 2017, OCCO gained institutional membership for the Bank at the International Organization for Standardization's Technical Committee 309 in the Governance of Organizations group. In collaboration with other EBRD departments, OCCO will provide technical input into the development of a new draft standard on the governance of institutions, both public and private, an area that is a key strength for the Bank as an institution.

OCCO continued to participate in the Steering Committee for Transparency International's Business Principles for Countering Bribery. This resulted in the drafting and publication, with support from OCCO, of the new Transparency International *10 Anti-Corruption Principles for State-Owned Enterprises*.

In relation to the department's work on the topic of de-risking, OCCO participates in the Wolfsberg Forum, where de-risking has been a consistent theme, in addition to the Financial Stability Board meeting at the IMF on AML and CFT in correspondent banking.

Lastly, together with colleagues in VP3, OCCO has contributed to the development of the Ukrainian Network of Integrity and Compliance (UNIC) and an OCCO representative sits on the UNIC Ethics Committee. UNIC is a voluntary initiative of businesses in Ukraine, focusing on anti-corruption certification. It brings together businesses committed to achieving high standards of integrity and ethical behaviour, creating a community of good practice and a positive demonstration effect in the wider market.

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## 7. Outlook for 2018

During 2018 OCCO will continue to focus on the activities summarised in this report. Priorities will include:

- **Domiciliation:** Since 1 January 2018, OCCO has assumed responsibility for client domiciliation. Priorities in this area will include: setting up a Domiciliation Unit, reviewing the existing EBRD Domiciliation Policy and updating the EBRD procedures and toolkit for domiciliation due diligence.
- **Codes of Conduct:** The department will finalise reviews and receipt of all necessary approvals from the Board of Governors and communicate or present to staff members and Board Officials.
- **Whistleblower framework:** OCCO will review the current whistleblower framework and develop a standalone policy.
- **Capital markets:** The team will further advance the capital markets compliance function within OCCO and revise associated guidelines and procedures.
- **Anti-corruption capacity-building:** The department will continue its proactive work with clients and potential clients on the development and implementation of anti-corruption and compliance action plans. With a view to enhancing the Bank's transition impact by promoting good governance, OCCO, in conjunction with other Bank departments and our international partners, will also continue to develop seminars, consultancies and other innovative programmes to advance business integrity across the Bank's region.
- **Training:** OCCO will improve training materials to enhance delivery of its messages, including through HQ classroom training, RO visits and online training.

## Contact information

Questions regarding this report should be addressed to:

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Email: [compliance@ebrd.com](mailto:compliance@ebrd.com)

[www.ebrd.com/who-we-are/our-values/investigating-fraud-and-corruption.html](http://www.ebrd.com/who-we-are/our-values/investigating-fraud-and-corruption.html)

## How to report fraud and corruption to the EBRD

Complaints, including reports of suspected fraud, corruption and misconduct, can be submitted to OCCO by email, telephone or in writing at the above address, or via the online form at:

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

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Published April 2018  
990 Integrity and Anti-Corruption  
Report 2017

# INTEGRITY AND ANTI-CORRUPTION REPORT 2017



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