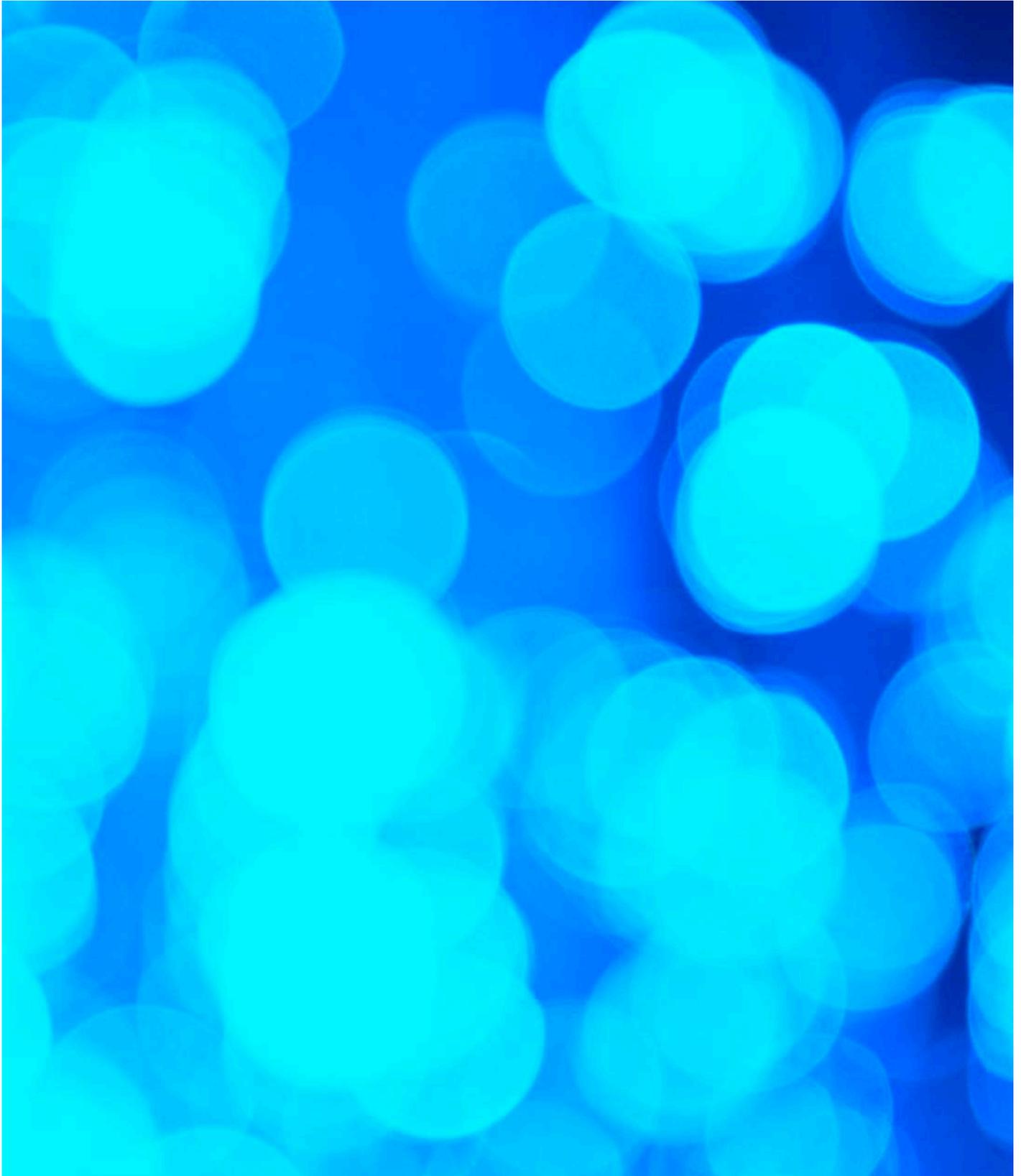


Integrity and Anti-corruption Report 2013



European Bank
for Reconstruction and Development

www.ebrd.com



The EBRD's Integrity and Anti-corruption Report 2013 explains how the Bank has applied and updated its policies and procedures on integrity and anti-corruption during the year ending **31 December 2013**. The report also summarises the Bank's technical cooperation, economic research and analysis, and international dialogue activities in relation to integrity and anti-corruption.

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 www.ebrd.com/pages/about/integrity.shtml

How to report fraud and corruption to the EBRD

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

 www.ebrd.com/pages/about/integrity/form.shtml

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President's message

The EBRD has been working for over two decades in its countries of operations, helping them to modernise their economies and introduce standards that help the countries to integrate more fully with the global economy. Tackling corruption is not just an essential part of our risk management; it is also integral to our mandate to promote transition towards a functioning market economy in our countries of operations. Our goal is to change lives in the countries where we invest.

In 2013 the EBRD invested €8.3 billion in more than 30 countries, from Mongolia to Russia, central and south-eastern Europe, Turkey, and the southern and eastern Mediterranean. Our projects continued to offer high levels of transition impact. Alongside investment, enhanced policy dialogue, technical assistance and international cooperation all played vital parts in fulfilling our goals.

The issues facing many countries in the EBRD region were laid out starkly in our *Transition Report 2013*. The past few years have seen a marked slowdown in economic and structural reforms, partly due to the shockwaves from the global economic crisis. Political factors have also contributed to this deceleration. In some countries, gains since the collapse of communism a quarter of a century ago have not only slowed, but have been reversed. Transition has stalled in these nations. If we are to help these countries to re-invigorate transition, we must be far more ambitious and innovative in seeking solutions. Policy dialogue at all levels, leading to sustained reform, will be crucial if we are not to end up with successful projects but little systemic change.

As this report demonstrates, we maintained our long-standing commitment to the highest standards of integrity and governance within the EBRD, with our clients and in our projects. But 2013 was also notable for the way in which anti-corruption has become an increasingly important strategic focus for the Bank.

There is a pressing need to improve the business climate in many countries, which includes persuading governments to tackle corruption at all levels. If they do not, investment will continue to move elsewhere in a recovering and highly competitive global economy. The year 2013 saw the Bank begin to lay the foundations for a more comprehensive approach to re-energising transition, a process that will continue into 2014 as we move towards the Bank's next capital resource planning period. This includes a more strategic and systematic approach to tackling corruption. These efforts began in 2013 with the Bank putting a further emphasis on the improvement of investment climate and good governance. Our engagement with the authorities in Ukraine and elsewhere through anti-corruption initiatives was part of our endeavours to improve the investment climates of these countries.

Revitalising transition will not be easy, but it is our duty to attempt this if we are to stay true to our mandate. We stand ready to step up our efforts, including helping to fight corruption in our region – and by doing so, support the transition to more open, more efficient and more accountable market economies and democracies.



Sir Suma Chakrabarti
EBRD President

Abbreviations

ADB: Asian Development Bank
AMEDD: Agreement for the Mutual Enforcement of Debarment Decisions
AML: Anti-money laundering
BEEPS: Business Environment and Enterprise Performance Survey
BIDD: Business Intelligence Due Diligence
CDRP: Conduct and Disciplinary Rules and Procedures
CFT: Countering the financing of terrorism
EAG: Eurasian Group on Combating Money Laundering and Terrorist Financing
EBRD: European Bank for Reconstruction and Development
EIB: European Investment Bank
EPP: Enforcement Policy and Procedures
FATF: Financial Action Task Force
IADB: InterAmerican Development Bank
IDD: Integrity Due Diligence
IFI: International Financial Institution
IMF: International Monetary Fund
LTP: Legal Transition Programme
MDBs: Multilateral development banks
ND: Nominee Director
OCCO: Office of the Chief Compliance Officer
OECD: Organisation for Economic Co-operation and Development
OLAF: European Anti-Fraud Office
PCM: Project Complaint Mechanism
PP&Rs: Procurement Policies and Rules
SEMED: Southern and eastern Mediterranean

1. Introduction

1.1 Purpose of the report

The European Bank for Reconstruction and Development (EBRD) (“the Bank”) is committed to achieving the highest standards of governance, integrity and transparency in the conduct of its business.

This commitment translates into a comprehensive and robust approach to the management of integrity risks associated with the Bank’s investment activities and the performance of Bank personnel.

The EBRD’s **Integrity and Anti-corruption Report 2013** explains how the Bank has applied (and, where relevant, updated) its policies and procedures on these aspects of its business during the year ending 31 December 2013.

The report also summarises related activities undertaken by the Bank during the year in the context of technical cooperation and policy dialogue, economic research and analysis and international cooperation.

The report is issued by the EBRD’s Office of the Chief Compliance Officer (OCCO) and is published on the Bank’s web site.

Further information on the issues addressed by this report – including key EBRD policies and guidelines, information on OCCO and guidance on how to report fraud and corruption – is available online:



Accountability, integrity and anti-corruption
www.ebrd.com/pages/about/integrity.shtml

Integrity and anti-corruption at the EBRD

Risk management

The EBRD’s focus on integrity and anti-corruption centres on client-related risks associated with the Bank’s financing activities and risks associated with the personal conduct of Bank staff members.

Transition impact

As a major investor in enterprises and financial institutions based in or operating out of its countries of operations, the EBRD also seeks to promote high ethical standards, integrity and good business practices as a key transition component in its work.

International cooperation

The EBRD works closely with other international financial institutions and other relevant organisations on the coordination of anti-corruption efforts and actively participates in the international development and dissemination of best practice and experience.

General principles

The Bank’s anti-corruption strategy is organised on four key principles: prevention, detection, investigation and enforcement. While each of these is equally important, the EBRD places a particular emphasis on *ex ante* measures. The effectiveness of the Bank’s pre-investment screening is reflected in the quality of the Bank’s project portfolio and transition impact.

Key areas of activity

The EBRD’s integrity and anti-corruption activities include improving the Bank’s internal management systems; conducting investigations and imposing sanctions where appropriate; the delivery of technical cooperation projects in the Bank’s countries of operations; and cooperation and coordination at the international level. The EBRD’s Office of the Chief Compliance Officer (OCCO) plays a key role in advising and supporting the Bank in all aspects of this work.

1.2 The year in context

The global economic and political context during 2013 continued to present major challenges for countries where the EBRD invests, affecting the pace of transition and economic development. Despite this difficult investment climate, the Bank provided strong support for transition and recovery, with total annual investment for 2013 of €8.5 billion in 392 projects across more than 30 countries. Annual Bank investment in the diversified corporate sectors accounted for 31 per cent of 2013 activity, the financial sector 28 per cent with SME financing a priority, the infrastructure sector 21 per cent and the energy sector 20 per cent.

The EBRD's **Annual Report 2013** contains detailed information on the Bank's operational activities and results during the reporting period and provides further context for the integrity and anti-corruption review provided in this report. Other EBRD publications that the reader may find useful for additional background and context are listed in the Annex.



Annual Report 2013

www.ebrd.com/pages/research/publications/flagships/annual.shtml

EBRD in 2013

Number of projects signed	392
Annual Bank Investment (ABI)	€8.5 billion
Non-EBRD finance mobilised by ABI	€13.5 billion
Net realised profit	€1.2 billion
Private sector share of ABI	79 per cent
Early transition countries' share of ABI	12 per cent
Proportion of transactions for amounts below €10 million	89 per cent
Proportion of projects rated as having 'good' or 'excellent' transition impact potential	91 per cent
Portfolio as at 31 December 2013	€37.8 billion
Non-performing loan ratio	3.3 per cent
Bond issuance	€6.5 billion
Triple A credit rating with stable outlook reaffirmed by all three major rating agencies	
Total donor funding	€349 million
Number of employees as at 31 December 2013	1,781
Number of Resident Offices	39
Number of integrity complaints received by OCCO in connection with Bank operations	27
Number of integrity complaints subject to investigation by OCCO following preliminary assessment	5
Number of enforcement proceedings instituted by the EBRD	0
Number of entities and individuals cross-debarred under AMEDD	328
Number of staff misconduct matters proceeding to formal investigation under the EBRD's CDRP	9

1.3 About the EBRD

The EBRD is an international financial institution (IFI) owned by 64 countries, the European Union and the European Investment Bank. Established in 1991 at the beginning of the post-Cold War era, the Bank's region now consists of 34 countries in central and eastern Europe, Central Asia and the southern and eastern Mediterranean.

The EBRD's mandate is to facilitate the transition to open and democratic market economies. It achieves this by investing in projects, engaging in policy dialogue and providing technical advice. The Bank is the largest single investor in its region and mobilises significant foreign direct investment into its countries of operations. The Bank works mainly with private enterprises, usually together with commercial partners, and provides project financing for the financial sector and the real economy, both new ventures and investments in existing companies. The Bank also works with publicly owned companies to support privatisation, the restructuring of state-owned firms and improvement of municipal services.

The EBRD maintains a close political dialogue with governments, authorities and civil society organisations to promote its goals. It also works in cooperation with international organisations such as the OECD, the IMF, the World Bank and the UN.

The Bank funds its financing activities partly through the issuance of bonds on the international capital markets. In addition, the EBRD's activities are strongly supported by the Bank's Special Funds programme and donor-funded Technical and Investment Cooperation Funds.

The EBRD's investment role

Every EBRD investment must:

- support the further development of sound market economies
- take risk that supports private investors
- follow sound banking principles
- strengthen sustainability.

Through its investments, the EBRD promotes:

- economic growth in its countries of operations
- entrepreneurship, competition and privatisation
- stronger financial institutions and legal systems
- infrastructure development
- adoption of strong corporate governance, including environmental sensitivity
- structural and sectoral reforms.

The EBRD:

- promotes co-financing and foreign direct investment
- mobilises domestic capital
- provides technical assistance.

The EBRD's region

Central Europe and Baltic States

Croatia
Estonia
Hungary
Latvia
Lithuania
Poland
Slovak Republic
Slovenia

South-eastern Europe

Albania
Bosnia and Herzegovina
Bulgaria
FYR Macedonia
Kosovo
Montenegro
Romania
Serbia

Eastern Europe and the Caucasus

Armenia
Azerbaijan
Belarus
Georgia
Moldova
Ukraine

Central Asia

Kazakhstan
Kyrgyz Republic
Mongolia
Tajikistan
Turkmenistan
Uzbekistan

Russia

Turkey

Southern and eastern Mediterranean

Egypt¹
Jordan
Morocco
Tunisia

¹ Potential country of operations

2. Overview of core integrity tools

2.1 Introduction

This chapter provides an annual overview of the main policies, procedures, organisational units and training programmes that are specifically and directly concerned with integrity and anti-corruption in the EBRD. High standards of corporate governance, risk management and accountability are embedded in all aspects of the EBRD's activities and business processes, from recruitment to procurement and from sector strategies to *ex post* evaluation. This chapter does not therefore attempt to provide a comprehensive and exhaustive treatment of all Bank processes that contribute to the integrity of the Bank and its anti-corruption efforts. Further sources of information are listed in the Annex.

2.2 Office of the Chief Compliance Officer

OCCO is the principal organisational unit within the EBRD that is specifically tasked to address integrity and corruption issues. In keeping with OCCO's independence from all operational departments, OCCO is headed by a Chief Compliance Officer (CCO) who reports directly to the President and has full and free access to the EBRD's Audit Committee.

OCCO's mandate is to promote good governance and to ensure the highest standards of integrity are applied throughout all of the activities of the EBRD in accordance with international best practice. The responsibilities of OCCO include dealing with issues of integrity, due diligence, confidentiality, conflicts of interest, corporate governance, accountability, ethics, anti-money laundering (AML) and countering the financing of terrorism (CFT). OCCO is also responsible for investigating allegations of fraud, corruption and misconduct. In addition, OCCO trains and, as necessary, advises EBRD staff members who are appointed as directors to the boards of companies in which the EBRD holds an equity interest.

The Project Complaint Mechanism (PCM) is also located within OCCO. This is the Bank's accountability mechanism for the assessment and review of complaints about Bank-financed projects and is concerned with the Bank's Environmental and Social Policy and certain aspects of the Bank's Public Information Policy. As such, the PCM does not come within the scope of this report on integrity and anti-corruption. The Bank publishes a separate annual report on the PCM.

There were no material changes to OCCO's role, management structure or staffing during the reporting period.



Office of the Chief Compliance Officer

www.ebrd.com/pages/about/integrity/compliance.shtml

2.3 Key policies, procedures and guidelines

The main policies, and procedures and codes that deal with integrity and anti-corruption issues in the conduct of the EBRD's business are summarised overleaf. With the exception of whistleblower protection (see below), there were no material changes to this framework during the reporting period.

The Bank began a periodic review of its Integrity Risk Policy and its Enforcement Policy and Procedures during 2013. The review will be completed during the first half of 2014 and, if appropriate, recommendations on updating these policies and procedures will be made to the Board of Directors.

Information on the application and results of the Bank's integrity and anti-corruption policies and procedures during 2013 is provided in section 3.

2.4 Whistleblower protection

The EBRD has long recognised that whistleblowing is an important tool in ensuring the good governance of its own staff and that of its clients and counterparties. The Bank's present Codes of Conduct make it clear that:

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

During 2013, the Bank completed a review of its whistleblower protection mechanism and approved plans for changes that will clarify and strengthen these arrangements in line with international good practice. The review was conducted by OCCO in close cooperation with the Bank's Office of the General Counsel (OGC) and included a comprehensive benchmarking exercise of current practices in comparator IFIs. Consideration was also given to the 2010 G20 Anti-Corruption Action Plan on Protection of Whistleblowers and to the reports and studies of various NGOs and academics active in the field of whistleblower protection.

The changes will include:

- extended whistleblower protection to experts performing missions for the Bank
- the introduction of alternate avenues for internal reporting of misconduct
- extended, subject to certain conditions, protection for staff members who report misconduct to parties external to the Bank
- express permission for anonymous internal reporting of staff misconduct and prohibited practices in a project context
- the possibility for management to provide interim protections to whistleblowers.

These changes will be implemented during 2014 through a phased process of revisions to relevant Bank policies, procedures and guidelines. A communications strategy will also be implemented to raise internal and external awareness about the Bank's approach to whistleblower protection.

Key policies, procedures and codes dealing with integrity and anti-corruption

Integrity Risk Policy

The EBRD's **Integrity Risk Policy** was approved by the Board of Directors in April 2009 and provides the primary articulation of the Bank's corporate values and management principles with respect to integrity and anti-corruption. Among other things, the policy identifies and defines the main types of integrity risks with which the Bank is concerned and summarises responsibilities for integrity and ethics in the Bank, including the leadership and oversight roles of the Board of Directors, the Audit Committee, the President and senior management.

The policy also sets out terms of reference for OCCO and the manner in which OCCO helps the Bank to protect its integrity and reputation and to manage integrity risks related to clients and personal conduct of Bank personnel.



Integrity Risk Policy

www.ebrd.com/downloads/integrity/integrityriskpol.pdf

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** represent and articulate the values, duties and obligations and ethical standards that the EBRD expects of its Board officials and staff. Both Codes of Conduct are established by the Board of Governors of the EBRD. The Code of Conduct for EBRD Personnel applies to the President, Vice-President, Chief Evaluator and staff members. The Code of Conduct for Board Officials applies to Directors, Alternate Directors, Temporary Alternate Directors and Advisers.

Together with the EBRD's **Conduct and Disciplinary Rules and Procedures (CDRP)**, the Codes set out the types of acts or omissions that may be considered as misconduct and the procedures to be followed with respect to investigating and, where appropriate, sanctioning such improper behaviour. Both Codes of Conduct were revised with effect from 29 February 2012.



Code of Conduct for Officials of the Board of Directors of the EBRD

www.ebrd.com/downloads/integrity/COCboard.pdf



Code of Conduct for EBRD Personnel

www.ebrd.com/downloads/integrity/COCstaff.pdf

Enforcement Policy and Procedures

The **Enforcement Policy and Procedures (EPP)** of the EBRD set out the Bank's policy and procedures for processing allegations of fraud, corruption, collusion or coercion in relation to activities and projects financed from the Bank's ordinary capital resources or from Special Funds resources, or from cooperation funds administered by the Bank. The current EPP was first introduced in March 2009 and was revised in May 2010 to incorporate the Bank's cross-debarment commitments under the Agreement for the Mutual Enforcement of Debarment Decisions (AMEDD). The EPP includes a definition of Prohibited Practices that is harmonised with the Uniform Framework for Preventing and Combating Fraud and Corruption.

The EPP sets out policies and procedures for, *inter alia*:

- the investigation of complaints by OCCO
- the composition and decision-making powers of the Bank's Enforcement Committee
- the issuance of Notices of Prohibited Practices and Notices for Third Party Findings
- the commencement and contest of Enforcement Proceedings
- Enforcement Decisions and Disclosure Actions available to the Bank
- Notices of Mutual Enforcement



Enforcement Policy and Procedures

www.ebrd.com/downloads/integrity/epp.pdf

2.5 Integrity due diligence

The EBRD maintains a robust approach to Integrity Due Diligence (IDD) on prospective EBRD clients and projects, as summarised in last year's report. IDD includes (but is not limited to) risks and issues such as:

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

Primary responsibility for performing IDD rests with the relevant banking team and in particular with the Operation Leader assigned to the transaction. The Bank's Credit function plays a key role in the project approval process and is specifically charged with reviewing and documenting client-related integrity concerns and referring any significant concerns to OCCO. OCCO gives independent expert advice to management as to whether the potential risk is acceptable to the Bank. The Operations Committee, consisting of the vice-presidents responsible for Banking, Risk Management and Finance, the General Counsel and the Chief Economist (and assisted, where appropriate, by OCCO), decides on the acceptability of potential integrity risks in advance of submitting the project for Board approval.

The Bank's IDD procedures and guidelines include trigger criteria that require projects with certain characteristics to be automatically referred to OCCO for review. In addition, during 2013 the Bank continued its standard practice of referring all projects in the Bank's southern and eastern Mediterranean (SEMED) region to OCCO for review. The SEMED region consists of Jordan, Morocco and Tunisia (which became full countries of operations in November 2013) and Egypt (which continues to have potential country of operations status). OCCO's continuing review of all SEMED projects helps the Bank to maintain and deepen its insight into integrity risks in this relatively new EBRD region, and to apply a consistent management approach to such risks.

Potential projects in any of the Bank's countries of operations may also be referred to OCCO for guidance at the beginning of the project planning cycle. This can result in some projects being discontinued at a relatively early stage. While it is not possible to provide a precise number of projects that do not go forward due to integrity risks alone, typically there are 10-20 such cases each year. Other early-stage prospects and enquiries may be rejected by banking teams for integrity reasons without requiring OCCO's input. OCCO's transaction advisory unit is also involved in providing advice and support during investment monitoring and on equity exits, as well as at the pre-investment stage. In any given month, OCCO's transaction advice workload typically consists of around 130 projects.

In addition to assessing risks associated with proposed transactions, OCCO regularly monitors information provided by the Banking department, ensuring that such information is accurate and any integrity concerns are properly identified. Quarterly compliance reviews are performed on all transactions that passed final review by Bank management during the period. Any areas of concern are reviewed by OCCO with appropriate remedial action taken. Twenty-five per cent of all projects are selected for comprehensive verification to confirm that checklist responses are indeed based on information obtained from supporting documents and/or other sources. Monitoring indicated that adequate assessment had been performed in all projects that were subject to this review. All quarterly compliance reviews also include an evaluation of the adequacy of the disclosure of integrity issues in Board documents. OCCO reviewed at least 25 per cent of the projects submitted for consideration by the Board of Directors in 2013, all of which were found to have appropriate disclosure.

2.6 Internal training

The EBRD provides new and existing staff members in its Headquarters and Resident Offices with a suite of compulsory and additional training programmes and resources on integrity, anti-corruption and related topics. The Bank's main internal training activities in 2013 in this area are summarised in the table below. They range from induction seminars on the Bank's Codes of Conduct to workshops on IDD. Integrity training is also provided to Bank staff and consultants who are appointed to act as the EBRD's Nominee Directors (NDs) (see section 2.7).

OCCO is directly involved in designing and delivering these courses in conjunction with external trainers and other relevant units within the Bank. Over the course of 2013, the Bank's integrity and anti-corruption training courses were delivered through more than 40 training sessions held in the EBRD's Headquarters and Resident Offices, involving the participation of several hundred new and existing Bank staff members. For context purposes, the Bank had 1,781 employees as at 31 December 2013 and had recruited 316 new members of staff during the reporting period. In addition to the delivery of formal training programmes, OCCO participates in sector and country team retreats when requested.

Internal training on integrity and anti-corruption in 2013	Number of participants
<p>Integrity Matters! (Induction)</p> <p>This half-day induction training module on ethics, integrity and staff conduct is mandatory for all incoming staff. In 2013, the course was delivered by OCCO and an external trainer via 14 seminars in the Bank's Headquarters, staggered throughout the year. Three of these seminars were for personnel who had been unable to attend training in 2012, including Board members (6 participants), senior management (6 participants) and SEMED-based staff from the Bank's Small Business Advisory team (11 participants).</p>	284
<p>Integrity Due Diligence, AML and CFT (Induction)</p> <p>All new EBRD staff in project-facing functions must complete this mandatory training programme on the Bank's IDD guidelines and international best practice and legal requirements relating to AML and CFT. The half-day course ensures that all project staff are aware of the ways in which money laundering and terrorist financing may confront the EBRD in its various projects and are familiar with the Bank's guidelines and are able to make decisions in line with them. The course is delivered by OCCO and an external trainer. It was provided to new staff members from both Headquarters and Resident Offices via eight seminars held at the EBRD's Headquarters in 2013. An online version of the course is also available via the Bank's intranet.</p>	134
<p>Integrity Due Diligence, AML and CFT (Refresher)</p> <p>A refresher version of the above course is mandatory for all EBRD project-facing staff who last received IDD/AML/CFT training more than three years ago. The half-day course is delivered by OCCO. During 2013, eight seminars were held at the Bank's Headquarters for a total of 75 staff members.</p>	244
<p>Banking Academy</p> <p>This week-long residential course is provided for bankers who are about to become eligible to be Operation Leaders. The OCCO component is a half-day session focusing on integrity and ethics in relation to project proposals. The course draws heavily on case studies and covers all the major EBRD departmental themes which typically occur in financing projects. The Banking Academy course was delivered four times in 2013.</p>	60
<p>Business Intelligence Due Diligence</p> <p>The Business Intelligence Due Diligence course assists project-facing staff to hone their questioning and intelligence-gathering skills in order to obtain an accurate and comprehensive picture of the integrity status of a transaction as early as possible in the project cycle. Four seminars were held in 2013.</p>	40
<p>Training for Nominee Directors</p> <p>All Bank staff and external consultants appointed by the Bank to act as Nominee Directors (NDs) on its behalf are required to participate in this two-day training programme. Three training sessions were held during 2013 and were attended by 15 Bank staff and 11 consultants.</p>	31

2.7 Nominee Directors

The EBRD's direct equity investments often provide opportunity for the Bank to nominate a member of the board of directors and thus positively influence the corporate governance affairs of the investee company. Depending on the circumstances of each project, the EBRD may designate a senior staff member to act as its Nominee Director (ND) or engage a suitably experienced and trusted external consultant to act as ND on the Bank's behalf.

As at 31 December 2013, the EBRD held 184 board seats, of which 109 were filled by Bank staff (80 individuals) and 75 by external consultants (62 individuals). During 2013, a total of 21 individuals (10 staff members and 11 external consultants) became EBRD NDs for the first time.

OCCO organises and actively participates in the Bank's training programme for NDs, focusing on the obligations of NDs and issues such as corporate governance, effectiveness of NDs, roles of different Board committees and the avoidance of conflicts of interest. Similarly, OCCO also participates in the training of staff members who represent the EBRD on the advisory committees and investment committees of the many private equity funds in which the EBRD invests.

2.8 Chinese walls guidelines

The Bank's Chinese walls guidelines have been in effect since 2009. In addition to being covered in the EBRD's *Integrity Matters!* induction training, the Guidelines are supported by an e-learning programme available to all staff which explains the concept of Chinese walls, the need to protect confidentiality, and the procedures for requesting authorisation to "go over the wall".

In the reporting period, two requests to be taken over the wall were received and granted in line with the guidelines.

3. Investigations and sanctions

3.1 Introduction

This chapter provides summary information on matters arising in 2013 that required investigation by OCCO and, where applicable, the outcomes of those cases. These concern allegations of staff misconduct and allegations of prohibited practices in relation to Bank projects.

3.2 Staff misconduct

OCCO investigated 19 cases in 2013 of suspected misconduct on the part of staff members, including one complaint that was carried over from 2012. These investigations were conducted in accordance with the Bank's Conduct and Disciplinary Rules and Procedures (CDRP).

The matter carried forward from 2012 involved allegations raised towards the end of that year that a staff member had acted corruptly by awarding Bank-funded contracts to a close relative. The staff member resigned immediately following an interview by an OCCO investigator in March 2013. As the matter was serious and involved possible misuse of European Union funds, the case was also referred to the European Anti-Fraud Office (OLAF) for its review.

Of the remaining 18 matters, 9 were closed following a preliminary assessment on the grounds that the information received was not reliable and/or serious. The other 9 complaints proceeded to formal investigation. The disposition of these as at 31 December 2013 is outlined below.

- One case concerned allegations that a staff member had failed to take appropriate measures to prevent a conflict of interest occurring between a Bank Operation and their personal interests: the matter was closed on the grounds that the staff member concerned resigned during the investigation as permitted by the CDRP.
- One case involved allegations that a staff member had acted insubordinately when improperly attempting to have a more senior staff member dismissed as an EBRD employee. The staff member resigned from the Bank prior to the investigation being completed.
- One case involving allegations of sexual harassment and another of workplace harassment and bullying resulted in oral warnings and reprimands being issued to two staff members.
- A staff member received an oral warning and reprimand following a finding that the staff member had failed to appropriately manage a conflict of interest between the staff member's private interests and Bank projects.
- Following a finding of 'abandonment of post', a staff member was placed on a work improvement programme.

- A case involving allegations that a staff member had made fraudulent claims for reimbursement from the Bank was closed and the staff member was exonerated.
- The final two matters concern allegations that staff members have engaged in bullying and abuse of authority. These investigations are continuing.

In addition to the above matters, OCCO continued to assist law enforcement authorities in Russia, the United Kingdom and the United States in relation to two criminal investigations.

- The first matter involves allegations that a former EBRD banker had received payments from a consultant engaged by Bank clients to assist them in their dealings with the Bank. The former staff member had been criminally charged by the UK authorities with accepting bribes and money laundering, and in July 2012 entered a plea of not guilty in the London Central Court. The trial was scheduled for September 2013 but was delayed, and is now likely to take place around November 2014. The Bank continues to assist the relevant authorities with their enquiries into this matter.
- The second matter involves unrelated allegations that a former EBRD Board Official solicited and obtained a bribe from an EBRD client. Following a criminal investigation by the UK authorities, in which the Bank assisted, the former Chief Executive Officer of the client concerned pleaded guilty in Southwark Crown Court in June 2013 to charges of bribing the former EBRD Board Official and received an immediate prison sentence. The Bank is continuing to assist the relevant authorities in connection with action against the former Board Official.

3.3 Bank projects

3.3.1 Complaints carried forward from 2012

As disclosed in the EBRD's Anti-corruption Report 2012, there were 4 pending matters that were subject to further investigation by OCCO as at 31 December 2012 out of a total of 36 complaints in that year.

Two of these investigations were completed during 2013. The first involved allegations of fraud by a sponsor of an EBRD project perpetrated through related party transactions. OCCO's investigation report was finalised during 2013 and will be considered by the Enforcement Committee during Q1 2014. The second involved allegations that the former Chief Executive Officer of a Bank client paid a bribe to a former EBRD Director in order to garner the EBRD Director's support for the project. OCCO's investigation report was finalised during 2013 and this matter is currently being prepared for submission to the Bank's Enforcement Committee.

Investigations into the remaining two matters are ongoing. The first involves allegations of corruption in the award of a large public sector contract, and is being investigated by national authorities. OCCO and investigators from another MDB continue to monitor this investigation. The second case involved allegations of collusion in a public sector tender exercise. A related investigation by national authorities was successfully completed during 2013 and OCCO is currently working with the contractor to finalise the EBRD investigation. This matter will be referred to the Bank's Enforcement Committee in Q2 of 2014.

3.3.2 New complaints received during 2013

OCCO received 27 complaints during 2013 alleging the occurrence of a prohibited practice in either the EBRD's public sector procurement or private sector operations (2012: 36 complaints) that required preliminary assessment under the Bank's EPP. In 14 cases, OCCO determined that the complaint was insufficiently reliable to warrant a further investigation or that it could be dealt more effectively by applying other remedial action. A further three matters have been recommended for closure, with the recommendation currently being reviewed.

In five matters it was determined that it was more appropriate that such matters be investigated by other investigative offices – one by the Nordic Investment Bank, one by the Serious Fraud Office in the United Kingdom and three by OLAF.

There were five matters in which a further investigation under the Bank's EPPs commenced in 2013. Details of these matters are outlined below.

- One involved allegations of fraud by a Bank-funded contractor that resulted in an increase in the invoice presented to the Bank client. This matter is currently undergoing a further investigation.
- One involved allegations that a Bank client submitted fraudulent mortgage security used to secure an EBRD loan. The further investigation has been completed and the Bank is determining how to resolve this matter.
- A further investigation was completed into allegations that a Bank client had engaged in a series of related party transactions that diverted an EBRD loan to the client's private interests. OCCO will shortly issue a 'show cause' letter to the client to provide the client an opportunity to respond to this allegation.
- An allegation that a client had diverted inappropriately EBRD loan proceeds from a project entity is currently the subject of a further investigation. It is anticipated that this investigation will shortly be completed.
- An allegation that an EBRD client fraudulently hid its true financial position from the Bank in order to convince the Bank to advance a loan facility is undergoing a further investigation. This allegation was received in late 2013 and will be completed in 2014.

In addition to action under the EPPs, OCCO provided advice to the Bank in matters where its clients are subject to criminal allegations by national authorities. A prominent matter in 2013 involved several banks in Moldova where OCCO was concerned at the recent unfavourable developments in the Moldovan banking sector affecting the shareholding structure of locally owned banks. OCCO advised that the Bank should refrain from further active operations with those entities until such time the Moldovan authorities are able to effectively enforce the applicable legislation.

3.3.3 Public sector procurement

The EBRD's Annual Procurement Review 2013 and Annual Report on Engagement of Consultants 2013 provide useful additional context for the integrity aspects of procurement during the reporting period (see the Annex).

3.3.4 Enforcement proceedings and cross-debarment

No enforcement proceedings were instituted by the EBRD during 2013.

Pursuant to the AMEDD and the cross-debarment provisions of the EPP, the Bank cross-debarred 303 entities and 25 individuals during 2013, based on debarment notices received from the World Bank Group (53 notices), the Asian Development Bank (4 notices), the Inter-American Development Bank (5 notices). Very few of these debarred entities have had previous relationships with the EBRD. A list of all EBRD debarred entities and persons is published on the EBRD's web site.



EBRD list of ineligible entities

www.ebrd.com/pages/about/integrity/list.shtml

4. Policy dialogue and technical cooperation

4.1 Introduction

As part of the EBRD's approach to preventing corruption and dealing with AML/CFT across the whole range of its activities, the Bank engages in policy dialogue with and provides technical assistance to policy-makers and businesses in the Bank's region. Such dialogue and assistance seeks to strengthen legal and economic institutions and promote good corporate governance and sound business environments.

4.2 Investment climate and good governance

Poor corporate and public governance are serious obstacles to transition in many countries where the Bank invests. Surveys of enterprises conducted by the EBRD and other organisations show clearly the impact of weak governance and a poor investment climate on business decisions, on starting, operating and expanding businesses and on foreign investment. The less advanced EBRD countries of operations traditionally rank at the bottom of global league tables on business environment and corruption, which affects investor perceptions and stymies growth.

In 2013 the Bank put a further emphasis on improvement of improve investment climate and good governance. Under this effort, the Bank seeks to address, among other things, the problem of corruption and its impact on business. Under the Initiative the Bank will work selectively with countries where there is a genuine political commitment to improve the business environment and tackle corruption, and will focus efforts on strengthening economic governance, establishing effective public-private platforms for dialogue, facilitating dispute resolution and enhancing transparency. The Bank will work closely with other institutions and partners on the ground, including civil society. Country-level initiatives will put in place a clear monitoring framework to measure results. As part of this Initiative, the Bank signed a Letter of Intent with the government of Albania in 2013 which envisages the development of a joint programme of activities to address weaknesses in the business environment and to assist the government's efforts in tackling corruption, especially as it affects the private sector.

The Bank's engagement with the authorities in Ukraine on an Anti-Corruption Initiative is part of this broader direction in the Bank's policy work. A Memorandum of Understanding (MoU) with the Ukrainian government was agreed in principle in 2013, placing at its core the establishment of a business reporting institution that would help address the problem of unfair treatment of businesses. Signing of the MoU has been delayed due to political turbulence in Ukraine.

4.3 Political methodology update

The EBRD, unlike many other IFIs, has a political aspect to its mandate. Article 1 of the Agreement Establishing the Bank states that the EBRD should foster transition to well-functioning markets only in countries that are committed to and applying principles of multiparty democracy and pluralism. The methodology and criteria for applying the political aspects of the Bank's mandate are set out in the *Procedures to Implement the Political Aspects of the Mandate*, first approved by the Board in 1991.

These procedures were updated and expanded in February 2013 following a comprehensive review led by the Bank's External Relations and Political Affairs Department. Among other things, the changes allow for comparability across countries and over time and take account of specific aspects of the extended SEMED region. As a result of the review, the Bank's political assessments now cover more systematically the issues of political accountability, civil society and political participation, the rule of law (including control of corruption), and civil and political rights (including rights for women and minorities).

The political assessment is an important component of the Bank's country strategies, which are reviewed every three to four years on a rolling basis. Country strategy reviews provide an important platform for policy dialogue and strategic decision-making on a wide range of issues, including (where relevant) corruption. Country strategy reviews were completed in 2013 for Belarus, Croatia, FYR Macedonia, Georgia, Kazakhstan, Mongolia and Poland. Those scheduled for completion in 2014 include Bosnia and Herzegovina, Moldova, Serbia, Slovenia and Ukraine.

4.4 Legal Transition Programme

Through its Legal Transition Programme (LTP), the EBRD aims to improve the investment climate in the countries where the Bank invests by helping to create a transparent and predictable legal environment conducive to the functioning of vibrant, market-oriented economies. The LTP is promoted by the EBRD's Office of the General Counsel and its activities range from assisting governments with the drafting of new legislation to designing new institutions (for example, pledge registries) and training public officials.

The LTP provides an important policy dialogue and technical cooperation platform for strengthening judicial systems, thus helping to build up defences against corruption. A key bottleneck to investment in the region is the difficulty businesses have in enforcing contracts through judicial channels. The Bank's response includes work through the LTP to improve the efficiency of court systems by organising training programmes for judges. In 2013, a total of 900 judges underwent EBRD-sponsored training sessions in Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Mongolia, Montenegro, Russia and Tajikistan, including 200 Mongolian and 200 Tajik judges.

In addition, the EBRD uses the LTP to assess the enforcement of court decisions. Analysis indicates that a lack of appropriate training, among other issues, undermines the effectiveness of court bailiffs in the countries of the CIS and Mongolia. The Bank began a pilot project in 2013 to help the Mongolian authorities improve training for bailiffs and re-design their system for enforcing court decisions. The EBRD hopes to launch similar actions elsewhere in future.

Transparent public spending remains at the top of the EBRD's LTP agenda, in particular in the Caucasus and Central Asia where collaboration with UNCITRAL, the UN's international trade law commission, reached new heights in 2013. The Bank helped Armenia, the Kyrgyz Republic, Mongolia and Tajikistan to begin reforming their public procurement legislation and adopt electronic procurement tools. In a similar context, the Bank intensified its assistance to Mongolia to implement the Extractive Industries Transparency Initiative (EITI), which aims to encourage transparent financial practices in the mining sector.

The promotion of better corporate governance in commercial and financial companies is also a key priority and the LTP plays a vital role in this effort. Last year's highlight was the programme's contribution to the preparation of a new corporate code for Russia, at the request of the Russian Financial Markets Service. Implementation of the code is expected to begin in 2014. The LTP also introduced new internal procedures to promote better corporate governance in the Bank's investee companies, for example by encouraging them to adopt corporate governance action plans.



Legal reform

www.ebrd.com/pages/sector/legal.shtml

4.5 AML/CFT training

The EBRD regularly offers AML/CFT training workshops to financial actors through a three-year technical cooperation programme launched in 2011 using donor funds generously provided by Luxembourg. Three workshops were delivered in 2013 for participants in Georgia, Mongolia and Tajikistan, with each course catering for up to 35 delegates.

The training programme has an emphasis on AML/CFT effectiveness and the implications of new sanctions measures. The need is particularly acute as the OECD, FATF, Council of Europe-MONEYVAL Committee, the UN, G20 and sovereign states turn their attention from law and regulation towards effectiveness, thereby demanding more of the public and private sector. New legislation relating to international sanctions makes compliance increasingly challenging.

The overall aim of the seminars is to target key personnel from financial institutions and to help attendees to better understand the new focus, their obligations and how to be effective with constrained resources. The training provides participating organisations with an opportunity to enhance their understanding and capacity, and to share their experiences in both international and national concerns. The course content is tailored to each country in order to increase awareness of their national and regional AML/CFT systems. The seminars include presentations and case studies delivered by local and international experts, and typically involve the participation of the relevant national regulatory authorities as well as delegates from the financial monitoring and compliance departments of local commercial banks. The Bank plans to deliver a further four courses in 2014, including workshops in Jordan and Morocco.

4.6 Economic research and analysis

The Office of the Chief Economist (OCE) works with Banking and other departments in designing, appraising and monitoring projects, and provides a substantive input into country and sector strategies. OCE also initiates and participates in policy initiatives, including policy dialogue. OCE also shapes the debate about transition and development through its publications, including the Bank's annual *Transition Report*.

The EBRD's *Transition Report 2013: Stuck in Transition?* notes that the reform process in the Bank's region of operations has been stalling since before the onset of the global crisis and that this lack of reform has weighed on both the investment climate and economic growth. The report investigates what determines the quality of economic institutions and how such institutions can be improved given a certain level of maturity of democratic institutions. As part of such investigation, the report assesses different aspects of the institutional environment, including the effectiveness of the rule of law and control of corruption. The evidence suggests that countries can promote and accelerate the return of reform, particularly if international integration, domestic leadership and broader social movements work hand in hand. Finally, the *Transition Report* confirms the complementarity of economic reform on the one hand and targeted political and governance reforms on the other. The latter includes, in particular, the quest for transparency and accountability.

The fifth round of the Business Environment and Enterprise Performance Survey (BEEPS V) – a joint EBRD and World Bank project – was completed in Russia. For the first time the Russian BEEPS was representative at the regional level. OCE used the BEEPS V data to analyse various issues pertinent to Russia’s economic development, such as the relationship between regional banking and firms’ ability to innovate. In 2013 OCE also rolled out BEEPS V in all other EBRD countries of operations, including the equivalent MENA Enterprise Survey in SEMED.

In 2013, the EBRD started to analyse the data of the second round of the Banking Environment and Performance Survey (BEPS II). Over 600 bank CEOs participated in the survey. In September 2013, the EBRD, the European Banking Center at Tilburg University, the Centre for Economic Policy Research and *Review of Finance* hosted a two-day conference at the Bank’s London Headquarters to review the results and discuss the state of banking in emerging markets. The results of the survey have now been summarised in short country-by-country snapshots published on the EBRD’s web site that highlight the strengths and weaknesses of the banking environment in each individual country.



Economic research and data

www.ebrd.com/pages/research/economics.shtml



Transition Report 2013: Stuck in Transition?

www.tr.ebrd.com



Banking environment and performance survey

www.ebrd.com/pages/research/economics/data/beps.shtml

5. International cooperation

5.1 Introduction

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

- keep abreast of and support the efforts of relevant international organisations
- participate in the development and dissemination of best practice
- work effectively with other MDBs in the common fight against corruption in emerging and transitional economies.

Key activities during 2013 are summarised below.

5.2 Inter-governmental initiatives

The EBRD continued to engage with key intergovernmental initiatives during 2013, including the Financial Action Task Force (FATF), MONEYVAL (the AML compliance body of the Council of Europe), the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG) and the OECD-hosted Global Forum on Tax Transparency (the Global Forum).

Where the FATF has identified a jurisdiction as having strategic AML/CFT deficiencies, the Bank undertakes enhanced due diligence on all its proposed counterparties within this jurisdiction in order for it to be satisfied that these entities have appropriate AML/CFT procedures and are not engaging in terrorist financing.

As part of its support of the international efforts designed to discourage tax evasion and other harmful tax practices, as well as to combat money laundering and terrorism financing, the EBRD adopted in late 2013 a new policy on domiciliation of EBRD clients. This new policy applies to EBRD-financed projects where the clients use third jurisdictions (that is, where a project entity or a controlling entity is located outside the relevant country of operation). This policy reflects on the most recent trends and developments in the above-mentioned areas of international cooperation as promoted by the Global Forum and the FATF.



Domiciliation of EBRD clients

<http://www.ebrd.com/downloads/policies/sector/domiciliation-policy.pdf>

5.3 MDB cooperation

The EBRD maintains close bilateral and multilateral relationships in the field of anti-corruption with other MDBs. The Bank is a signatory to the Agreement of Mutual Enforcement of Debarment Decisions (AMEDD). Alongside the IMF, the World Bank, the EIB and the African, Asian and Inter-American development banks, the EBRD is also an active participant in the Joint IFI Anti-Corruption Task Force.

The successful application of the regime under the Agreement on Mutual Debarments requires each participating institution to maintain confidence in the due process safeguards provided by the other sanctioning institutions. Accordingly, the Integrity Offices of the (MDBs) met and communicated regularly throughout 2013 and discussed topics relating to the effective implementation of the Agreement on Mutual Debarments. A number of agreements were reached during the year, including decisions on:

- the process to be applied when an entity fulfils the conditions for release from debarment
- the process when an entity disputes a Notice of Mutual Enforcement.

The Integrity Offices continued to work on several other topics of common interest, including:

- whether and when Integrity Offices should undertake pro-active reviews
- how Integrity Offices should respond to instances of national transgressions by strategically important counterparts, suppliers or contractors
- settlement agreements
- sharing of information among MDBs and with other international organisations
- whistleblower protection
- the referral of matters to national enforcement authorities.

These matters will continue to be discussed with the aim of the MDBs agreeing on a 'best practice' approach regarding some of these issues. Further information is available at www.crossdebarment.org.

In May 2013, the EBRD hosted the annual Private Sector Integrity Conference attended by 45 representatives from 13 international organisations. The aim of this conference is to coordinate and strengthen the integrity due diligence processes adopted by international organisations in their private sector operations. All aspects of integrity due diligence were discussed and debated, from how to conduct integrity due diligence in an international organisation to what to do when 'things go wrong'.

5.4 Other international cooperation activities

As in previous years, the EBRD helps to support the work of standard setters by working closely with governments, civil society representatives and the private sector. The EBRD participates in the Steering Committee for Transparency International's Business Principles for Countering Bribery and maintains contacts with other organisations such as the OECD to underscore the importance of anti-corruption reforms in the Bank's countries of operations.

6. Outlook for 2014

The EBRD's integrity and anti-corruption initiatives and activities during 2014 will continue to focus on the activities summarised in this report, including:

- integrity and anti-corruption training for EBRD staff members
- the provision of transaction advisory support by OCCO to relevant banking teams and country offices
- complaint processing, investigation and enforcement
- cross-debarment processing
- contribution to the revisions to be introduced to the Bank's CDRPs
- technical cooperation and economic research
- international cooperation with other organisations and initiatives.

Specific elements of the 2013 work programme include completion of the Bank's periodic reviews of the Integrity Risk Policy and EPP (see section 2.3) and the roll-out of policy amendments to strengthen the Bank's whistleblower protections (see section 2.4).

OCCO will also continue to be closely involved in the Bank's investment climate and good governance efforts (see section 4.2).

Annex: Other EBRD reports

The Bank publishes a number of other reports that may provide useful context and/or additional background information in connection with the **Integrity and Anti-corruption Report 2013**.

Annual Report The EBRD's Annual Report contains detailed information on the Bank's operational activities and results during the reporting period. www.ebrd.com/pages/research/publications/flagships/annual.shtml

Financial Report In addition to data on the Bank's financial results in the reporting period (including information on the credit quality of the EBRD's Banking operations portfolio) the Financial Report provides comprehensive information on corporate governance and risk management at the EBRD during the reporting period. www.ebrd.com/pages/research/publications/flagships/financial.shtml

Donor Report The Donor Report provides an update on the role of donor support in helping to prepare the way for Bank projects, fostering reform and improving the investment climate. www.ebrd.com/pages/research/publications/flagships/donor.shtml

Transition Report Published by the Office of the Chief Economist, this annual publication charts the progress of reform in the Bank's countries of operations and identifies transition indicators, including those relating to business standards and corporate governance. www.ebrd.com/pages/research/publications/flagships/transition.shtml

Sustainability Report The Bank's Sustainability Report provides detailed information on the environmental and social aspects of Bank policy and operations during the reporting period, including compliance with the EBRD's Environmental and Social Policy. www.ebrd.com/pages/research/publications/flagships/sustainability.shtml

Project Complaint Mechanism Annual Report The EBRD's Project Complaint Mechanism (PCM) provides individuals, groups and organisations that may be adversely affected by a Bank-financed project with a forum for raising their concerns. The PCM is specifically concerned with issues relating to the Bank's Environmental and Social Policy and project-specific aspects of the Bank's Public Information Policy. www.ebrd.com/pages/project/pcm/about.shtml

Annual Evaluation Report The EBRD's independent Evaluation Department is responsible for evaluation policy and procedures and for monitoring and delivering the Bank's overall evaluation programme. Its analysis is used to assess performance and identify insights and lessons from experience – including those pertaining to due diligence – that the institution can then use to improve the effectiveness of future operations. www.ebrd.com/pages/about/what/evaluation/key.shtml

Annual Procurement Review This annual report reviews public sector procurement contracts signed during the reporting period that have been funded and/or administered by the EBRD and procured by the Bank's clients. The review includes information on compliance and integrity issues during the year. Consultancy contracts financed under public sector financing are included in this report. www.ebrd.com/pages/workingwithus/procurement/project/reports.shtml

Annual Report on Engagement of Consultants This report provides an overview and analysis of consultancy contract awards by the EBRD and its clients during the reporting period financed either from the Bank's budget, public sector loan proceeds, TC funds (including special and cooperation funds) and funds managed by the Bank's Nuclear Safety Department. www.ebrd.com/pages/workingwithus/procurement/reports.shtml