



Global Environment Facility
Fiduciary Management Standards

Standards and Practices Review Template

Draft Version Agency: European Bank for Reconstruction and Development (EBRD)

Proprietary and Confidential
Draft — Preliminary and Tentative — For Discussion Purposes Only

December 12, 2007

A. Audit, Financial Management and Control Framework**(1) External Financial Audit**

The external financial audit function ensures an independent (as defined by the International Federation of Accountants (IFAC)) review of financial statements and internal controls.

- a. The agency has appointed an independent external audit firm or organization.
- b. The work of the external audit firm or organization is consistent with recognized international auditing standards such as International Standards on Auditing (ISA).
- c. Financial statements are prepared in accordance with recognized accounting standards such as International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) that are accepted in major capital markets for listed companies.
- d. The internal controls over financial reporting cover the use of GEF funds, and Management asserts to the agency governing body that these internal controls are adequate.
- e. An annual audit opinion on the financial statements is issued by the external auditor and made public.
- f. An independent audit committee, or comparable body, is appointed and oversees the work of the external audit firm or organization as it relates to the audit of the financial statements. The audit committee or comparable body has written terms of reference that address its membership requirements, duties, authority, accountability and regularity of meetings.
- g. The external auditor makes regular reports of observations with respect to accounting systems, internal financial controls, and administration and management of the organization. Auditor and management progress reports are reviewed by the audit committee or comparable body annually.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p><i>"The agency has appointed an independent external audit firm or organization."</i></p> <p>External auditors are appointed by the Board of Directors, on the recommendation of the President, for a four-year term. No firm of auditors can serve for more than two consecutive four-year terms. The external auditors perform an annual audit to enable them to express an opinion on whether the financial statements present fairly the financial position and the profit of the Bank. They also examine whether the statements have been presented in accordance with IFRS and the overall principles of the EC Council Directive on Annual Accounts and Consolidated Accounts of Banks and other Financial Institutions. In addition, the external auditors review and offer their opinion on management's assertion as to the effectiveness of internal controls over financial reporting. This opinion is given as a separate report to the audit opinion. There are key provisions of the Bank's policy regarding the independence of the external auditors. The external auditors are prohibited from providing non-audit related services, subject to certain exceptions if it is judged to be in the interest of the Bank and if it is approved by the Audit Committee. However, the external auditors can provide technical cooperation consultancy services relating to client projects.</p> <p><i>"The work of the external audit firm or organization is consistent with recognized international auditing"</i></p> <p>In 2006 the Bank reappointed PricewaterhouseCoopers LLP for a second four-year term covering 2007 to 2010. PricewaterhouseCoopers conducts its work in accordance with international auditing standards.</p> <p><i>"Financial statements are prepared in accordance with recognized accounting standards"</i></p> <p>Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.</p> <p><i>"The internal controls over financial reporting cover the use of GEF funds"</i></p> <p>GEF funds are covered by the same internal controls as any other internal or donor funds managed by the Bank.</p> <p><i>"An annual audit opinion on the financial statements is issued by the external auditor and made public."</i></p> <p>The EBRD's produces and releases publicly an Annual Report comprising two separate</p>	<p>EBRD Annual Report 2006 – Annual Review and Financial Report</p> <p>Terms of Reference for the Committees of the Board of Directors</p>

Inventory of Current Organizational Environment	Documentation References
<p>companion volumes: the Annual Review and the Financial Report, which includes the financial statements and the financial results commentary.</p> <p><i>"An independent audit committee, or comparable body, is appointed and oversees the work of the external audit firm"</i></p> <p>The Board of Directors has established a number of Board Committees to assist with its work one of which is the Audit Committee. The Terms of Reference of Committees of the Board of Directors details the Audit Committee's roles and responsibilities. The Audit Committee has regular bilateral meetings with the Bank's external auditor as well as with management to review financial, accounting, risk management, project evaluation, compliance, and internal control and audit matters. The Committee also continued to review the Bank's quarterly and annual financial statements prior to their release. The Board of Directors is responsible for evaluating the performance and effectiveness of the Audit Committee</p> <p><i>"The external auditor makes regular reports of observations"</i></p> <p>At the conclusion of their annual audit, the external auditors prepare a management letter for the Board of Directors, which is reviewed in detail and discussed with the Audit Committee, setting out the external auditors' views and management's responses on the effectiveness and efficiency of internal controls and other matters. The performance and independence of the external auditors is subject to annual review by the Audit Committee</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

(2) Financial Management and Control Frameworks

An internal control framework, as defined by internationally recognized frameworks such as COSO, Cadbury and CoCo, is a risk-based process designed to provide reasonable assurance and feedback to management regarding the achievement of objectives in the following categories:

- *Effectiveness and efficiency of operations*
 - *Reliability of financial reporting and financial management frameworks*
 - *Compliance with applicable policies and procedures.*
- a. A control framework has been adopted that is documented and includes clearly defined roles for management, internal auditors, the board of directors or comparable body, and other personnel.
- b. The control framework covers the control environment (“tone at the top”), risk assessment, internal control activities, monitoring, and procedures for information sharing.
- c. The control framework has defined roles and responsibilities pertaining to accountability within the control framework for fiscal agents and fiduciary trustees.
- d. At the institutional level, risk-assessment processes are in place to identify, assess, analyze and provide a basis for proactive risk responses. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent.
- e. The control framework guides the financial management framework.
- f. Procedures are in place for identifying internal controls and assessing controls details annually in the following financial management areas:
- Budgeting;
 - Accounting;
 - Internal control;
 - Funds flow (including disbursements, cash management, unused fund close-out);
 - Financial reporting; and
 - Auditing arrangements.
- g. Duties are segregated where incompatible. Related duties are subject to a regular review by management; response is required when discrepancies and exceptions are noted; and segregation of duties is maintained between: settlement processing; procurement processing; risk management/reconciliations; and accounting.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>The Bank has adopted the “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for internal controls over Financial Reporting. Management (the President and Vice Presidency Finance) annually asserts on the design effectiveness and operating effectiveness on such controls and the external auditors annually attest to management’s assertion. These reports form part of the Financial Report.</p> <p>The annual certification of internal controls (ICF controls) entails identifying, documenting and recording key internal controls over financial reporting. The Management and Organization Structure document outlines the organization by department and provides an organization chart. The ICF controls over financial reporting include key business level controls and IT general and application level controls which are all tested by management to prove they are operating effectively. Testing is conducted in accordance with sample sizes agreed with the external auditors based on a risk assessment approach. EBRD has a 2-person unit responsible for assessing the state of internal controls of the EBRD reporting to Finance (and developing operational risk reporting to Risk Management). This unit reviews all testing prior to the external auditors’ review. Internal audit will review these “ICF” controls in the context of the scope of audits conducted.</p> <p>Also included are top level or “tone at the top” controls which cover pervasive entity wide controls such as integrity, ethics and recruitment controls. These are tested by the ICF team on behalf of management. EBRD includes only key controls in its ICF framework as these are tested and reviewed to form part of the management assertion. Business managers are responsible for ensuring adequate “other” controls exist and these are not tested in the same way.</p> <p>ICF controls cover all processes material to the Financial Report and include monitoring controls, reconciliations, direct input review, segregation controls and analytical review. These operate bankwide, particularly in accounting, financial reporting and funds flow. They are frequently reviewed and ratified by conducting walkthroughs of processes material to the financial report.</p> <p>Terms of Reference of the Committees of the Board states the audit committee should oversee the soundness of the Bank’s systems of internal controls which management has established regarding finance and accounting matters and their effective implementation.</p> <p>Responsibility for developing the operational risk framework and for monitoring its implementation resides within the Risk Management Vice Presidency. Within the EBRD, there</p>	<p>EBRD Annual Report 2006 – Annual Review and Financial Report</p> <p>Terms of Reference for the Committees of the Board of Directors</p>

Inventory of Current Organizational Environment	Documentation References
<p>are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the EBRD's high standards of business ethics and its established system of internal controls, checks and balances and segregation of duties. Risk and control self assessments are conducted by departments and discussed between departments. Risks are categorized pre and post control by impact and likelihood ratings. In addition the EBRD reviews key risk indicators (KRIs) monthly, reporting KRIs outside their normal range to the Executive Committee. Internal operational loss data is captured and the EBRD is also a member of an external loss database consortium pooling and sharing loss information (on an anonymous basis).</p> <p>As stated in the Terms of Reference of Committees of the Board of Directors, the Audit Committee oversee the status, the ability to perform duties independently and the performance of the Bank's compliance, internal audit, project evaluation and risk management functions.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

(3) Financial Disclosure

The financial disclosure policy establishes and/or strengthens the process surrounding mandatory financial disclosures of possible or apparent conflicts of interest by identified parties.

- a. A documented financial disclosure policy covering identified parties defines conflicts of interest arising from personal financial interests that require disclosure, including actual, perceived and potential conflicts.
- b. The policy specifies who is required to adhere to the standards, including employees, employee family members, consultants, or independent experts at a management decision making level with the following responsibilities:
 - Contracting or procurement;
 - Developing, administering, managing, or monitoring loans, grants, programs, projects, subsidies, or other financial or operational benefits provided by the bank; and
 - Evaluating or auditing any project, program or entity.
- c. The policy specifies prohibited personal financial interests.
- d. The policy describes the principles under which conflicts of interests are reviewed and resolved by the agency. It describes sanction measures for parties that do not self disclose where a conflict of interest is identified. The policy contains references to other related internal policies, such as outside employment policies.
- e. Parties covered by the policy are provided a way to disclose personal financial interests annually to an administrative function within the agency.
- f. The policy establishes processes for the administration and review of financial disclosure interests of the defined parties defined as well as resolution of identified conflicts of interests, under an independent monitoring/administration function.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p><i>"A documented financial disclosure policy..."</i> <i>"The policy specifies who is required to adhere to the standards..."</i> <i>"The policy defines prohibited personal financial interests..."</i></p> <p>EBRD has developed two Codes of Conduct ("CoC"), one for EBRD personnel and experts and one for Officials of the Board of Directors.</p> <p>The CoC for personnel and experts applies to:</p> <ul style="list-style-type: none"> ▪ The President; ▪ Vice-Presidents; ▪ the Chief Evaluator; ▪ Staff members holding the positions of Business Group, Corporate or other Directors that report directly to the President; ▪ All other staff. <p>The CoC for Officials of the Board of Directors of the EBRD applies to:</p> <ul style="list-style-type: none"> ▪ Directors ▪ Alternate Directors ▪ Temporary Alternate Directors ▪ Advisers <p>Both Codes:</p> <ul style="list-style-type: none"> ▪ were approved by the Board of Governors on 5/22/2006. ▪ contain a rule (13) that the privileges and immunities granted under the Agreement establishing the Bank do not exempt a bank personnel or board official from observing all applicable national laws. ▪ define actual and apparent conflicts of interest. ▪ define prohibited financial interests, those being: <ul style="list-style-type: none"> ○ Short-term trading in securities issued by the Bank ○ Knowingly acquiring, directly, or indirectly, for his/her interest any financial interest in a loan made by the bank or securities of any entity engaged in financial transaction or other financial/supplier relationships with the Bank. ▪ state that the Office of the Chief Compliance Officer in consultation with the President and 	<p>CoC - Directors: http://www.ebrd.com/about/strategy/general/code1.pdf</p> <p>CoC - Staff http://www.ebrd.com/about/strategy/general/code2.pdf</p>

Inventory of Current Organizational Environment	Documentation References
<p>General Counsel will work to manage conflicts to a successful resolution.</p> <ul style="list-style-type: none"> ▪ state that if any individual has questions/ concerns regarding an actual or apparent conflict of interests then these individuals should refer to the Office of the Chief Compliance Officer for guidance. ▪ include within their definition of covered persons their immediate family members. ▪ contain examples of ethical and professional standards to be upheld and examples of misconduct. <p>The Office of the Chief Compliance Officer is responsible for conducting investigations to examine and determine the veracity of allegations of corrupt or fraudulent practices. The President and the Chief Compliance Officer with the agreement of the Code of Conduct Committee are also responsible for publishing, when necessary, general guidance notes clarifying the provisions of this Code.</p> <p>The Reporting Fraud and Corruption Guidance outlines avenues for raising concerns and questions of misconduct, fraud and/or corruption to the Bank's Office of the Chief Compliance Officer for follow-up.</p> <p><i>"Parties covered by the policy are provided a way to disclose personal financial interests annually to an administrative function within the agency"</i></p> <p>All those covered by the CoCs are required to sign a statement annually.</p> <p><i>"The policy describes the principles under which conflicts of interests are reviewed and resolved by the agency"</i></p> <p>See Section C on investigations.</p>	

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Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

4) Code of Ethics

A code of ethics for agency staff promotes responsible governance and ethical behavior.

- a. A documented code of ethics defines ethical standards to be upheld, including protecting agency and trust fund assets. The code lists parties required to adhere to the standards including employees, consultants, and independent experts. It describes disciplinary and enforcement actions for violations, and provides for appropriate flexibility in application and implementation in local environments.
- b. An ethics or related function provides administrative support for the code, including distributing the code, monitoring compliance, and authority to refer to the agency's investigation function for alleged violations.
- c. Multiple avenues for reporting compliance and/or other business conduct concerns such as a hotline and contact information for functional/department options (e.g. human resources and internal audit) are readily available (e.g. by posting them to the agency's intranet and external websites).

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
See section 3 above which covers many of the above issues.	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

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(5) Internal Audit

Internal auditing is an independent, objective activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- a. Internal audit activity is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors (IIA).
- b. Auditors and entities that provide internal auditing services adhere to ethical principles of integrity, objectivity, confidentiality and competency.
- c. The internal audit function is independent and objective in the execution of its respective duties. There is an officer designated to head the internal audit function. The chief audit officer reports to a level within the organization that allows the internal audit activity to fulfill its responsibilities objectively.
- c. The internal audit function has documented a terms of reference/charter that outlines its purpose, authorized functions, and accountability.
- d. The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan. The audit plan outlines the priorities of the function and is consistent with the agency's goals.
- e. The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) to ensure proper coverage and minimize duplication of efforts.
- f. The internal audit function disseminates its findings to the corresponding senior and business management units, who are responsible for acting on and/or responding to recommendations.
- g. The internal audit function has a process in place to monitor the response to its recommendations.
- h. A process is in place to monitor and assess the overall effectiveness of the internal audit functions including periodic internal and external quality assessments.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p><i>"Internal audit activity is carried out in accordance with internationally recognized standards"</i></p> <p><i>"Auditors and entities that provide internal auditing services adhere to ethical principles"</i></p> <p>The Bank has an Internal Audit Department which has adopted IIA Standards and follows the IIA Code of Ethics.</p> <p><i>"The internal audit function is independent and objective in the execution of its respective duties."</i></p> <p>The Internal Audit Department which has a dotted reporting line to Audit Committee and a solid reporting line to President of EBRD. The Auditor General is appointed by the President and cannot be fired without approval of the Audit Committee. However, the Auditor General is hired from within the ranks of the EBRD and does not have a limited term appointment.</p> <p><i>"The internal audit function has documented a terms of reference"</i></p> <p>The Internal Audit Department has terms of reference which are based on the standard format of the British Institute of Internal Auditors</p> <p>The main objectives of the Internal Audit Department are to provide a continual, independent appraisal of all the main aspects of the Bank's activities, with particular emphasis on the key risk areas, in order to assist management in the effective discharge of its responsibilities. In the course of the performance of an individual audit, the attainment of these objectives will generally include, <i>inter alia</i>:</p> <ul style="list-style-type: none"> • ascertaining the extent of compliance with the <i>Agreement Establishing the EBRD</i>, established policies, plans and procedures, industry best practice and any relevant regulations; • reviewing and appraising the soundness, adequacy and application of the internal control systems; • reviewing the availability, reliability and integrity of the relevant management information systems, and the methods used to identify, measure, classify, and report such information; • examining the economy, efficiency and effectiveness of the process, including value-for-money considerations as well as non-financial controls; • determining the extent to which assets are accounted for and safeguarded from losses. 	

Inventory of Current Organizational Environment	Documentation References
<p><i>"The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan"</i></p> <p>The Internal audit department activity proposes a work program on the basis of perceived highest need areas for the EBRD. That decision is based on a risk assessment. The specific scope of an individual internal audit is determined immediately prior to the commencement of its planning stage. This aspect of the planning process is purposely carried out as close to the commencement of the audit as possible in order to permit all the relevant issues extant at the time of the audit to be considered in the risk assessment. This process will consider matters such as:</p> <ul style="list-style-type: none"> • financial and operational materiality of the various aspects of the activity being audited; • sensitivity (public and reputational risk); • senior management concerns; • quality of the underlying internal control system; • control environment; • recent developments; • nature and extent of weaknesses identified during the course of any previous audits; • opportunities for value-for-money findings. <p>The decision relies heavily on interviews conducted by Internal Audit in the process of developing its annual work plan. The Audit Committee approves the work program and the budget.</p> <p><i>"The internal audit function has a process in place to monitor the response to its recommendations. "</i></p> <p>IA maintains a database to track recommendations and the status of management's response to these recommendations. Status is reported on a 6-monthly basis to the audit committee. Status is also discussed at the EBRD's Executive Committee to ensure follow-up by responsible units.</p> <p><i>"A process is in place to monitor and assess the overall effectiveness of the internal audit functions including periodic internal and external quality assessments."</i></p> <p>In order to satisfy itself that the Bank's internal audit function and work programmes are adequate and efficient, the Audit Committee reviews the annual internal audit plan near the beginning of each year and monitors the implementation of the plan throughout the course of the year.</p> <p>To establish whether Internal Audit is performing adequately, the Audit Committee is required to satisfy itself:</p> <ul style="list-style-type: none"> • that the resources allocated to the Internal Audit function are adequate and that the professional experience of the internal auditors are acceptable; • that the programme of work is adequate to meet the objectives of the organisation; • that the methodology adopted in implementing the audit programme is appropriate. 	

Inventory of Current Organizational Environment	Documentation References
<p>In this context, the Audit Committee delegates two of its members the task of reviewing individual internal audit reports produced to ensure that the work performed is adequate. This review concentrates on the general issues linked to the adequacy and efficiency of internal controls, i.e. the methods and control process, and will form the basis of a report to the full Committee on the effectiveness of the internal audit process.</p> <p>In accordance with usual practices of international institutions, such reviews should be carried out by persons who do not have a statutory obligation to disclose information they receive in the course of fulfilling their duties to any third party or national party.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

B. Project/Activity Processes and Oversight

(1) Project Appraisal Standards, including safeguards measures, as appropriate

Project appraisal functions include the establishment of standards and appropriate safeguards that are used to determine whether projects and activities will meet their development goals before funds are dispersed.

- a. An independent project and/or activity appraisal process is in place with the purpose of examining whether proposed projects and/or activities meet appropriate technical, economic, financial, fiduciary, environmental, social, institutional and/or other relevant criteria, including GEF-mandated criteria, and whether they are reasonably likely to meet stated objectives and outcomes. The process ensures an appropriate degree of institutional checks and balances at the stage of project design.
- b. Project and/or activity development objectives and outcomes are clearly stated and key performance indicators with baseline and targets are incorporated into the project/activity design.
- c. Risk-assessment procedures are in place specifying the criteria and circumstances under which environmental, social, institutional and/or fiduciary assessments must be conducted.
- d. Adequate oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>The Bank has developed standard due diligence procedures, covering a range of information for each and every project. The project appraisal process is led by the Operation Leader and his or her banking team with input from a range of support units. These units include Office of the Chief Economist, the Risk Management Department, the Office of the General Council, the Procurement and Technical Services Unit, and the Environment and Sustainability Department. The aim is to ensure that the key elements of the EBRD's mandate are met in the project (sound banking, transition, additionality and sustainable development).</p> <p>The due diligence process assists the Bank in, among other things:</p> <ul style="list-style-type: none"> • understanding the business of clients; • obtaining and verifying information; • identifying critical risks; • performing risk analysis; • developing financial projections; • assessing cash flow sensitivity; 	

Inventory of Current Organizational Environment	Documentation References
<ul style="list-style-type: none"> • analysing key ratios; • evaluating the operation; • mitigating the risks; <p>Due diligence may involve both review by EBRD staff and the preparation of reports by third-party specialists. This may be cases where feasibility or other preparatory studies are necessary or where particular technical or environmental expertise is required.</p> <p>Most projects go through at least three reviews called Concept Review, Final Review and Board Review. Concept and Final Review are undertaken by the Operations Committee (“OpsCom”) which is chaired by the Vice President of Banking with representation from a range of banking and support departments. Board Review is the final review prior to approval and is undertaken by the Bank’s Board of Directors.</p> <p>In terms of project objectives these generally relate to the Bank’s mandate i.e. transition impact, sound banking, additionality and sustainable development. For example, each project is assessed by the Office of the Chief Economist to understand how the project is promoting entrepreneurship and open, market-based economies. OCE will establish key transition objectives, monitoring benchmarks and expected timing of implementation of each benchmark which are then monitored by the Operation Leader and reported in monitoring reports (see later section).</p> <p>Before financing is approved, every project is appraised for its social and environmental impact and is classified according to type, location, sensitivity and scale. Project objectives are clearly stated in an online form available to all appropriate responsible parties. The EBRD will seek to ensure through its environmental appraisal process that the projects it finances are environmentally sound, designed to operate in compliance with applicable regulatory requirements, and that their environmental performance is also monitored. It will pay particular attention to requiring appropriate and efficient mitigation measures and management of environmental issues, which may have legal, financial and reputation implications, as well as environmental implications. It will seek to realize additional environmental benefits through the projects it finances, in particular if the projects also provide economic benefits.</p>	

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Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

(2) Procurement Processes

Agency procurement processes covering both internal/administrative procurement and procurement by recipients include written standards based on widely recognized processes and an internal control framework to protect against fraud, corruption and waste.

- a. Specific directives at the agency promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability and authority to take procurement actions.
- b. Specific procurement guidelines are in place with respect to different types of procurement managed by the agency, such as consultants, contractors and service providers.
- c. Specific procedures, guidelines and methodologies of assessing the procurement procedures of beneficiary institutions are in place.
- d. Procurement performance in implemented projects is monitored at periodic intervals, and there are processes in place requiring a response when issues are uncovered.
- e. Procurement records are easily accessible to staff, and procurement policies and awards are publicly disclosed.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>The Procurement and Technical Services Unit provides quality services and professional advice for both internal and external clients. It is responsible for developing and updating procurement policies, rules and methods, training staff and clients, creating and maintaining an appropriate procurement quality assurance system; using information technology, including the Internet to disseminate more widely information about procurement opportunities and other useful information.</p> <p>The EBRD's Procurement Policies and Rules are based on the fundamental principles of non-discrimination, fairness and transparency. They are designed to promote efficiency and effectiveness and minimise risk in the implementation of the Bank's lending and investment operations.</p> <p>As well as securing the efficiency of the Bank's own projects, the implementation of projects based on EBRD's Procurement Policies and Rules promotes:</p> <ul style="list-style-type: none"> • The development, on a national level, of public procurement systems based on principles 	<p><i>Procurement Policies:</i> http://www.ebrd.com/about/policies/procure/index.htm</p>

Inventory of Current Organizational Environment	Documentation References
<p>and procedures of highest international standard.</p> <ul style="list-style-type: none"> • The participation by foreign enterprises in EBRD-financed projects and greater involvement by the international business community in the Bank's countries of operations. • The introduction of innovative solutions based on a strong private sector involvement in the provision of public services. • Procurement for state sector projects is normally carried out through open, competitive tendering. Only in exceptional circumstances are other procurement methods considered. Open tendering ensures equal opportunities for all interested tenderers, irrespective of country of origin, to participate in a tender financed by the EBRD. • For private sector operations, the client company or project sponsor is responsible for the procurement under the project. However, the Bank will satisfy itself that private sector clients use appropriate procurement methods. The EBRD's financing activities generate many opportunities for suppliers, contractors and consultants worldwide. <p>As stated in the Terms of Reference of Committees of the Board of Directors, the Audit Committee shall periodically oversee the systems, methods and results of contracting for goods, services and consultancy in technical assistance and operations, for example, an annual review of purchasing procurement and engagement of consultant reports</p> <p>EBRD Policies and Rules, Procurement Process states, the normal process for public sector procurement involves the following steps:</p> <ul style="list-style-type: none"> • public notification of opportunities for tendering; • prequalification where appropriate; • invitation to tender and issuance of tender documents; • receipt of tenders, evaluation of tenders and contract award; • contract administration <p>EBRD Policies and Rules Procurement Planning, state that the client should complete the overall procurement plan and the Bank should clear it before any procurement begins.</p> <p>EBRD clients are responsible for monitoring while the Bank's review of the procurement and contract administration processes will focus on critical steps that are necessary to ensure eligibility of the contract for Bank financing, in particular:</p> <ul style="list-style-type: none"> • the procurement plan; • the tender documents; • the tender evaluation and contract award recommendations, and; • material changes and claims during execution of the contract. <p>EBRD conducts ex-post reviews of the procurement process for conformity with procurement rules and with procurement plan.</p> <p>As stated in EBRD Procurement Policies and Rules the Bank's clients are required to prepare</p>	

Inventory of Current Organizational Environment	Documentation References
and maintain documents and records pertaining to the procurement process and the administration of contracts.	

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Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

(3) Monitoring and Project-At-Risk-Systems

The GEF monitoring and evaluation policy, adopted by Council in February 2006, establishes minimum requirements based on widely recognized, best practice norms and standards for monitoring in the GEF. From a fiduciary perspective, the monitoring function detects, assesses, and provides management information about risks related to projects and/or activities, particularly those deemed to be at risk.

- a. Monitoring functions, policies and procedures consistent with the requirements of the GEF monitoring and evaluation policy have been established.
- b. The roles and responsibilities of the monitoring function are clearly articulated at both the project/activity and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project and/or activity origination and supervision functions.
- c. Monitoring reports at the project/activity level are provided to project/activity manager as well as to an appropriately higher level of oversight within the organization so that mid-course corrections can be made, if necessary. Monitoring reports at the entity/portfolio level are provided to both project/activity managers and to an appropriately higher level of oversight within the organization so that broader portfolio trends are identified, and corresponding policy changes can be considered.
- d. A process or system, such as a project-at-risk system, is in place to flag when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems.
- e. Adequate oversight procedures are in place to guide the project risk assessment process and to ensure its quality and monitoring of follow-up actions during implementation.
- f. This process or system is subject to independent oversight

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>The Bank continuously reviews the progress being achieved by the client during implementation against appraisal objectives and expectations. Monitoring may also alert the Bank to the possibility of fraudulent practices, with procedures and inspections geared to detecting and reacting to unusual or suspect events, decisions or documents.</p> <p>The monitoring phase begins immediately after project approval by the Board of Directors. It continues throughout the physical implementation of the operation and the beginning of commercial operations and continues until repayment in full or, for equity, divestment. The Operation Leader within the Bank remains responsible and accountable for the activities of this phase. However, the banking teams receive support from a number of specialised groups in carrying out the various activities.</p> <p>The client is wholly responsible for the implementation of an operation - operation implementation, as distinct from monitoring, is thus clearly the client's responsibility. The Bank does, however, have a fiduciary responsibility to its owners and lending partners to ensure that funds are utilised to achieve the objectives, and in accordance with the terms and conditions, that were established for the operation at the time of approval and in the investment agreements. This responsibility coincides with the Bank's concern for protecting its interest as a creditor and/or investor and furthering the realisation of expected returns on its equity investments. Moreover, as an international financial institution, the Bank has a parallel obligation to the countries in which it operates to provide them, and the Bank's clients, with sound and constructive input aimed at facilitating the timely and efficient execution and operation of the projects it helps to finance. Monitoring is the process through which the Bank carries out these responsibilities.</p> <p>Environmental supervision is also undertaken while an operation is being monitored by the Bank. This ensures that the client carries out the environmental measures specified in the Loan Agreement and that appropriate actions are taken in cases of non-compliance. Monitoring includes checking both on the general environmental performance of the operation, as incorporated in an agreed Environmental Action Plan, and also, specifically, on the progress of environmental mitigation or enhancement measures specified as part of the operation's design.</p> <p>There are four types of formal reports on the Bank's projects:</p> <ul style="list-style-type: none"> • Monitoring Report • Expanded Monitoring Report (Short or Long Format) • PMM Memo • Corporate Recovery Memo 	

Inventory of Current Organizational Environment	Documentation References
<p>Monitoring Report (MR): Individual project report summarising significant developments in the project for the relevant period. Produced semi-annually, quarterly or annually depending on the rating and Credit's decision.</p> <p>Expanded Monitoring Report (XMR): The XMR replaces the MR for the year of the project completion, generally defined as the end of the disbursement phase and the start of commercial operations (or on a timing otherwise agreed by EvD). The XMR is accompanied by full financial projections, based on the model at appraisal and reflecting any revised forecasts as a part of annual update.</p> <p>Project Monitoring Module (PMM) Memo: A PMM memo is a format which gives a less comprehensive background to the project and focuses on recent developments. It may be used for projects on quarterly reporting and, by agreement with the relevant Credit Manager at the Credit Portfolio Review Unit ("CPRU") for entry stage projects where implementation has barely started.</p> <p>Corporate Recovery Memo (CRM) In cases where serious deterioration has occurred and primary responsibility has been transferred to an OL in the Corporate Recovery unit, the OL normally produces the Corporate Recovery Memo at quarterly intervals, subject to Credit's decision.</p> <p>The reports produced by the OL are submitted to the Credit Portfolio Review Unit and are discussed at regular meetings (quarterly, semi-annually, or annually depending on the status of the project). These meetings are led by the nominated member of CPRU and are attended by the relevant banking team and members of support units assigned to the project under discussion.</p> <p>Beyond its primary orientation, the monitoring system also provides the basis for the Quarterly Credit Commentary that is submitted to the Board, as well as a record of implementation experience from which the Banking Vice-Presidencies and the Evaluation Department assess the outcomes of Bank operations, develop lessons learned to help improve future work, and provide an accounting to the President and Board on the relative success or failure of categories of Bank operations.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

(4) Evaluation Function

The evaluation function assesses the extent to which projects, programs, strategies, policies, sectors, focal areas, or other activities achieve their objectives. The goals of evaluation are to provide an objective basis for assessing results, to provide accountability in the achievement of agency objectives, and to learn from experience. The GEF monitoring and evaluation policy, adopted by Council in February 2006, establishes minimum requirements based on widely recognized, best practice norms and standards for monitoring in the GEF, including impartiality, professionalism, and a high degree of independence.

- a. Independent evaluations are undertaken by an established body or function as part of a systematic program of assessing results, consistent with the requirements of the GEF monitoring and evaluation policy.
- b. The evaluation function follows impartial, widely recognized, documented and professional standards and methods.
- c. The evaluations body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the agency, ideally reporting directly to the governing board. If its structural independence is limited, the evaluations body or function has transparent reporting to management and /or the governing board.
- d. An evaluation disclosure policy is in place. Evaluation reports are disseminated as widely as possible, and at a minimum to all parties directly or indirectly involved with the project. To enhance transparency, to the extent possible, reports are available to the public.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p><i>"Independent evaluations are undertaken by an established body"</i></p> <p>The Evaluation Department (EvD) is responsible for reviewing Bank operations. EvD evaluates Bank projects and policies, establishing how well they meet their objectives and the extent to which they comply with the Bank's mandate. EvD also draws lessons from past experience which helps the Bank to improve the design of new operations. The department evaluates Bank investments as well as donor funded activities. Special studies related to particular sectors and countries are also prepared by EvD. In addition, EvD looks at the practices of other international financial institutions and utilises the lessons they have learned from their operations to improve the potential of EBRD projects.</p> <p>EvD evaluates EBRD operations against a range of objectives, identifies lessons learned and ensures that these are taken into account in new projects and strategies.</p>	<p>http://www.ebrd.com/projects/eval/about.htm</p>

Inventory of Current Organizational Environment	Documentation References
<p>1. The lessons learned are incorporated into the lessons learned database;</p> <p>2. Training is provided for bankers to improve the design and selection of projects, internal monitoring and self-evaluation.</p> <p>When new projects or strategies are prepared, EvD liaises closely with Bank management to ensure lessons learned are incorporated.</p> <p><i>“The evaluations body or function is structured to have the maximum independence”</i></p> <p>The EvD is considered independent of EBRD management and reports directly to the Bank's Board of Directors. This line of reporting was established in 2005 to enhance accountability and enable EvD to assess the performance of the Bank impartially.</p> <p><i>“An evaluation disclosure policy is in place.”</i></p> <p>The evaluation reports prepared by EvD are made available to the Board of Directors, to EBRD management and are published on the Bank's website. The reports provide valuable recommendations on project structure and implementation.</p> <p><i>“The evaluation function follows impartial, widely recognized, documented and professional standards and methods”</i></p> <p>The Evaluation Department ("EvD") follows the guidelines established by the Evaluation Cooperation ECG, which aim to standardize evaluation methods in multilateral development banks. EvD's Procedural Manual requested but not provided.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

C. Investigations

(1) Investigation Function

The investigation function provides for independent, objective investigation of allegations of fraud and corruption in agency operations, and of allegations of possible agency staff misconduct.

- a. The investigations function has publicly available terms of reference that outline the purpose, authority, and accountability of the function.
- b. To ensure independence, the investigations function is headed by an officer who reports to the head of the agency and/or an oversight body, such as a committee of the board of directors or a comparable body.
- c. The investigations function has published guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process.
- d. The investigations function has a defined process for periodically reporting case trends. To enhance accountability and transparency, to the extent possible, case trend reports and other information are made available to senior management and respective functional business areas.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>The Bank has an independent Office of the Chief Compliance Officer (“OCCO”), which is headed by a Chief Compliance Officer (“CCO”) reporting directly to the President, and annually or as necessary to the Audit Committee. The CCO is mandated to promote good governance and ethical behaviour throughout all of the Bank’s activities in accordance with international best practices. The role of the CCO includes dealing with integrity due diligence issues, confidentiality, corporate governance, ethics, conflicts of interest, anti-money-laundering, counter-terrorist financing and the prevention of fraudulent and corrupt practices. The OCCO is responsible for investigating fraud, corruption and misconduct. It also trains and advises, as necessary, the Bank’s nominee directors who are appointed to companies in which the Bank holds an equity interest.</p> <p>The Code of Conduct for Officials of the Board of Directors of the EBRD states that if an investigation of misconduct involves a board member then the Chief Compliance Officer has the authority to appoint an independent external investigator to act as an Inquiry Officer. Also, principles supporting these investigations are included as an annex.</p>	<p>http://www.ebrd.com/about/integrity/index.htm</p> <p>http://www.ebrd.com/about/integrity/report.pdf</p>

Inventory of Current Organizational Environment	Documentation References
<p>The Code of Conduct for EBRD Personal and Experts states investigations of misconduct involving the following require certain considerations:</p> <ul style="list-style-type: none"> ▪ President - The Chief Compliance Officer is required to report to the Chair of the Audit Committee and the Chair will appoint an independent external investigator ▪ Vice Presidents and Chief Evaluator - The Chief Compliance Officer is required to report to the President and appoint an independent external investigator ▪ Chief Compliance Officer - The Chair of the Audit Committee is responsible for appointing an independent external investigator <p>The OCCO staff are required to disclose to a supervisor in a timely fashion any actual or potential conflicts of interest he or she may have in an investigation in which he or she is participating, and the supervisor is required to take appropriate action to remedy the conflict.</p> <p>The OCCO is required to accept all complaints irrespective of their source, including complaints from anonymous or confidential sources and register and review them to determine whether they fall within the jurisdiction or authority of the Office.</p> <p>The International Financial Institutions Anti-Corruption Task Force Framework outlines that EBRD's OCCO should adopt procedures for the following:</p> <ol style="list-style-type: none"> a. Receipt of Complaints b. Preliminary Evaluation c. Case Prioritization d. Investigative Activity e. Case Disposition f. Referrals to National Authorities g. Measures to Prevent Unauthorized Disclosure of Investigative Information <p>The Office of the Chief Compliance Officer issues a periodic Anti-Corruption Report (2005-2006) which is posted on EBRD's website that outlines trends for the following:</p> <ul style="list-style-type: none"> ▪ Internal Investigations of staff members, board members and senior management ▪ External Investigations in the public sector and private sector. <p>OCCO reports on case trends to senior management and the Audit Committee. Also works to inform respective functional business areas for consideration of improvements to control framework through follow-up meetings.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall

(2) Hotline & Whistleblower Protection

Agency policies provide avenues for reporting suspected ethics violations and protections for individuals reporting such violations.

- a. A hotline or comparable mechanism is in place to ensure the capacity to take in reports of suspected unethical, corrupt, fraudulent or similar activity.
- b. An intake function coordinates the reporting of hotline information, compliance and/or other business concerns from internal and external sources. The intake function maintains a certain level of autonomy from the investigations function.
- c. A whistleblower protection policy covering who is protected and defining protected disclosures (such as violations of law, rule or regulation, abuse of authority, gross waste of funds, gross mismanagement or a substantial and specific danger to public health and safety). The policy defines the standard of protection from retaliation (such as placing the burden on the agency to provide evidence that the involved official would have taken the same action absent the protected disclosure).
- d. Policies are in place to ensure confidentiality and/or anonymity, as requested, of whistleblowers or others making reports (such as by using appropriate hotline technology, and preserving anonymity in reporting processes).
- e. Procedures are in place for the periodic review of the handling of hotline, whistleblower and other reporting information to determine whether the process to protect these parties is in place and is effective.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>The EBRD recognises whistleblowing as one important way to ensure good governance. The EBRD operates a working environment that supports and ultimately protects employees who, in good faith, report instances of suspected misconduct.</p> <ul style="list-style-type: none"> It is the duty of EBRD staff members to report instances of suspected misconduct to the Chief Compliance Officer (CCO). It is the EBRD's duty to protect from reprisal action staff members who, in good faith, comply with their duty to report their suspicions of misconduct. <p>A whistleblower is any employee who, in good faith, promptly reports instances of suspected misconduct to the CCO.</p> <p>Misconduct is defined as an "intentional or negligent failure" by an employee to observe the rules of conduct or standards of behaviour prescribed by the EBRD. This is a deliberately</p>	<p><i>Compliance Hotline:</i> http://www.ebrd.com/about/integrity/compl/index.htm</p> <p><i>Whistleblower Protection:</i> http://www.ebrd.com/about/strategy/general/whistle.htm</p>

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<p>broad definition that covers a wide range of potentially incriminating information.</p> <p>An employee who complies in good faith with his duty to report suspected misconduct and who discloses information to the CCO will be protected by the EBRD from “pressure, retaliation or reprisal” in connection with his co-operation. Protection extends throughout the disciplinary and appeal process, including guarding the reputation of the whistleblower.</p> <p>The CCO will investigate any complaints by whistleblowers that they have been retaliated against for disclosing information or for engaging in the appeals process. If the complaint is established, the Vice President Human Resources & Administration (VPHRA) can impose disciplinary sanctions against the retaliating employee, which could include termination of appointment. A whistleblower who is the subject of retaliatory action could also seek redress under the Grievance and Appeal Procedures, which could include a compensatory award.</p> <p>The EBRD is obliged to protect the identity of a whistleblower and as far as possible maintain his or her anonymity. The preservation of a whistleblower's anonymity is an investigative priority. But the Bank's whistleblower protection mechanism must also safeguard the human and due process rights of the subject of the whistleblower's complaint. In certain circumstances, a guarantee of anonymity may not be provided -- for example where anonymity would jeopardise the success of any investigation and, more significantly, where it might impede the subject employee's ability to properly answer the allegations raised against him or her.</p> <p>An employee who acts maliciously, by disclosing information to the CCO that he knows or reasonably believes to be false, is not a whistleblower and will not be protected under the whistleblowing mechanism.</p> <p>An employee who unilaterally discloses allegations of misconduct to authorities outside of the EBRD will not be protected by the EBRD's whistleblower protection mechanism. There are several reasons for this, including the fact that the staff of the EBRD are employees of an international organisation, which in order to maintain its essential independence has been accorded by treaty certain privileges and immunities that prevents the institution from being held hostage to the laws of any one member state.</p> <p>The EBRD's whistleblowing protection mechanism is part of the EBRD's disciplinary system. There are three possible steps:</p> <ul style="list-style-type: none"> • The Chief Compliance Officer conducts a preliminary assessment of any reported allegation of suspected misconduct to determine if the allegation warrants further investigation. If so, there will be a fact finding inquiry. The CCO then recommends to the Vice President, Human Resources/Administration whether or not there should be a formal accusation of misconduct raised against the subject of the allegation. 	

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<ul style="list-style-type: none"> • If the Vice President adopts the CCO's recommendation and decides to raise a formal accusation of misconduct, the VP must then determine the culpability of the employee. The VP will in effect try the accusation or, alternatively, appoint a committee to do so. The due process rights of the accused employee are recognised and protected. If the employee is found to have committed an act of misconduct, the VP will impose a disciplinary penalty that could range from a written censure to the termination of the employee's contract. • An employee may appeal against such decision to impose a disciplinary sanction to the Administrative Tribunal under the Appeals Procedures, without first going through the normal administrative channels, mediation or an Administrative Review as provided for under the Grievance Procedures. <p>The protection of whistleblowers is linked to the overall protection and accountability of the organisation. A viable, published and well understood whistleblowing protection mechanism is designed to encourage employees to disclose information that may not otherwise be discovered. This serves to combat the disruptive effects that misconduct inevitably has on the structure and coherence of the organisation.</p> <p>The EBRD's whistleblowing protection mechanism will be adapted over time in order to ensure that it continues to meet the needs of all concerned parties.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall