This Helpdesk Answer provides an analysis of potential risks of corruption in challenge fund cycles. It also draws on the anti-corruption literature to provide recommendations on how to integrate anti-corruption measures and best practices into the funding cycle. In addition, this brief also includes a number of cross-sectional anti-corruption measures. The results presented, however, have to be treated with caution as they provide only a theoretical insight into corruption risks rather than an evaluation of the likelihood of each risk occurring. As such, organisations concerned about corruption in the use of challenge funds should conduct a bespoke and in-depth risk assessment to account for the specific likelihood and probable impact of various forms of corruption.
Query

Provide guidance, best practices and recommendations on how to best integrate anti-corruption measures into challenge fund cycles.

Content

1. The importance of anti-corruption risk assessments for development funds
2. The risks of corruption in the challenge fund cycle
3. Cross-sectoral strategies to reduce corruption risk
4. Annex: Relative risk of different forms of corruption across CF project cycle
5. References

The importance of an anti-corruption risk assessment for development funds

Challenge funds (CFs) are intended to finance innovative solutions to development challenges on the basis of transparent rules (Aubert 2005; OECD 2012). Challenge funds can be divided into public (civil society CFs) and private sector (enterprise CFs). Civil society CFs aim to improve governance, transparency, rights and access to services. Enterprise CFs (enterprise development and business impact) aim to improve the way businesses and markets operate to reduce poverty and inequality at local, provincial, national, regional or global levels.

According to a comprehensive definition from Triple Line and the University of Bath (2014a), challenge funds:

1. provide grants or subsidies;
2. with an explicit public purpose;
3. shared between independent agencies, with grant recipients;
4. who are selected competitively;
5. on the basis of advertised rules and processes;

Main points

—— Challenge Funds may entail high risks of corruption as they operate in specialised fields, have complex project structures with flexible results frameworks and can involve profit-driven actors.

—— Given their role as intermediaries between donors and grant holders, fund managers play a critical role in identifying and curbing corrupt practices.

—— The severity of different forms of corruption risk vary across the six typical phases of Challenge Fund project cycles.

—— The literature presents a range of mitigation measures suited to reducing corruption risk, ranging from clarity in project design to transparency in policies and procedures, third party oversight and grievance mechanisms.

6. who retain significant discretion over formulation of their proposals and execution of their project;
7. who share risks with the grant provider.

In common with other types of donor financial support, CFs are faced with certain corruption risks, which can undermine the effectiveness of donor interventions (Kenny 2007) and lead to a “leakage” of resources (Olken & Pande 2012; Rose-Ackerman
“Corruption” and “risk” are naturally associated concepts (Johnsson 2015), although literature in this field is relatively recent (Costantino 2018; UNGC 2013).

International development and cooperation agencies need to accurately consider risks of corruption as they could affect the organisation’s efficiency due to the misdirection of resources (i.e. fewer funds to carry out project activities, inefficiencies in selection processes), which could hamper the quality of project’s outcomes. There are also a number of indirect costs, such as the impact on an organisation’s reputation if corruption is uncovered. In fact, managing corruption risks in development agencies requires a dedicated mitigation approach, as unlike other operational risks, corruption involves matters of ethics and reputation.

Challenge Funds may entail higher risks of corruption than other types of development programmes for a number of reasons.

First, challenge funds often operate in highly specialised fields with complex technical instruments and organisational structures (i.e. engineering, cutting-edge medical research), which can decrease the number of potential applicants and complicate oversight, thereby increasing the potential for collusive corruption (Trapnell et al. 2017: 38).

Second, challenge funds can take the form of multi-level projects involving several partners, sub-contractors and funding channels, providing more entry points for corruption.

Third, with regard to enterprise CFs, the involvement of the profit-driven private sector actors may bring additional integrity risks, as these entities might employ corrupt means in order to access the cheap capital or subsidies provided by Challenge Funds.

Fourth, Challenge Funds are not designed to have an immediate certainty of results. For this reason, they entail a higher level of tolerance of partial failure in the provision of outcomes compared to standard projects (IPE Triple Line 2018). However, this initial absence of a clear process of results delivery may create loopholes for corruption to flourish in the absence of appropriate accountability mechanisms.

Before turning to examine anti-corruption strategies as they relate to Challenge Funds, it is important to understand that the effective mitigation of corruption risks relies on unpacking the umbrella concept “corruption” into specific risks and types of behaviours that can be addressed in a targeted fashion. Types of corruption can include bribery, kickbacks, embezzlement, trading in influence, abuse of power, the revolving door, collusion, clientelism, insider trading and conflicts of interest.

The U4 Anti-Corruption Resource Centre provides an overview of the various forms of corruption on its website, while United Nations Global Compact (2012) and Transparency International (2019) provide a series of definitions.

The specific forms of corruption to which an organisation is most exposed will depend on a number of factors including broader operational environment, organisational structure, the integrity of any intermediaries or business partners, robustness of financial reporting and so on (Johnsson 2015; Makowsky and Wang 2018; Merkle 2017; Abbink and Ellman 2010; Abbink 2004).

When it comes to instruments like Challenge Funds, the most significant integrity risks may not be related to fraud or bribery but rather less obvious forms of corruption, such as conflict of interest and favouritism within the decision-making bodies (donors, steering committees, fund managers). As a result, traditional financial controls designed to prevent fraud and embezzlement, such as audits to verify project expenditure may be insufficient to curb corrupt practices in Challenge Funds.

Preventing corruption in CFs requires a robust risk assessment as well as cost-benefit analysis of various mitigation measures. To support an assessment of these risks, this Helpdesk Answer analyses the most common forms of corruption associated to each phase of the CF cycle, providing guidelines based on best practices to reduce the risk of corruption for each of them.

The risks of corruption in the challenge fund cycle

Challenge Funds focus more on the desired outcome than the means of achieving the outcome. For this...
reason, they are different from conventional funding processes as they usually involve a large degree of freedom for grant holders to identify innovative solutions. The funds are therefore allocated to the achievement of a number of desired outcomes, but the steps to achieve them are not strictly specified. Without appropriate monitoring and oversight, this degree of freedom in project design can become a facilitator for corruption. It is therefore crucial to design appropriate accountability mechanisms and ensure that every part of the process is appropriately structured, including the division of responsibilities and the structural arrangements.

The CF cycle is composed of the following stages:

1. design of challenges;
2. calls for proposals;
3. selection process;
4. funding agreement;
5. grant management;
6. monitoring, evaluation and learning.

An accurate mapping of the processes is the first step to identify corruption risks linked to the design of the funds. One classic example involves a person who is responsible for both ordering and verifying delivery, with a risk of both over-ordering and under-delivering. It therefore helps to clearly demarcate responsibilities and attempt to identify potential conflicts of interest at the outset.

Furthermore, process mapping defines the number of people involved in the process of awarding funds and the points where undeclared external associations pose the greatest risk. Every sustainable risk-aware anti-corruption programme will be measured against two yardsticks: effectiveness and cost-efficiency.

The role of fund managers is particularly crucial throughout the CF project cycle, from the challenge design to the selection process, as these managers work closely with the awardee grant holders to draft the budget, milestones, deliverables and documentary requirements. For instance, they assess whether grant holders’ contract amendment requests are justified as well as provide recommendations to the key decisions making bodies at contracting agent such as steering committees. In addition, fund managers are typically responsible to donors for ensuring not only grant holders’ performance but also their contractual compliance and financial accountability.

As such, they are therefore likely to be the first line of defence in any attempt by the grant holder to subvert the integrity of the project. Maintaining an appropriate balance between compliance management and a collegial partnership with grantees can be quite challenging. This may entail high degrees of discretion, which could make fund managers vulnerable to corruption.

On the other hand, by conducting capacity assessments and offering targeted capacity strengthening support, fund managers can be instrumental in strengthening the integrity of grant holders (Triple Line and University of Bath 2014).

Fund managers are thus crucial players in curbing corrupt practices in CF operations, not least because they are also in charge of the identification of new funding opportunities or “windows”. Fund managers should have technical expertise, knowledge of civil society activities and an understanding, in the case of enterprise challenge funds, of the market system and market failures.

The following section surveys the major corruption risks and potential mitigation mechanisms across the six phases of the CF cycle. Note that conflict of interest can occur at any time across the project cycle. Conflict of interest situations mainly involve decision makers, such as fund managers or donors. Some typical situations of involve: i) non-disclosure of private interests; ii) evolution of professional relationships into personal friendships, which can influence decision-making processes.

---

1 Challenge Funds may start with one window (e.g. a general window to a wide selection of applicants), and progressively develop new windows of funding opportunities over time.
Design of the challenge

This stage includes the rationale for the CF, which needs to be as clear as possible both to justify donor funding and to provide the maximum level of transparency in the application process. The design of the challenge is the first and crucial step of the CF cycle. It serves as a framework for the individual calls. According to IPE Triple Line (2018), a successful process should therefore take into account the following:

- the nature and scope of the challenge objectives;
- the characteristics and features of the organisations that will identify and present solutions;
- the nature and scale of initiatives to be supported;
- the contexts in which the projects will take place;
- the anticipated pathways to change and impact, including any requirements for non-monetary support (i.e. technical assistance, capacity building etc.).

### Table 1: corruption risks and mitigation measures during the design phase

<table>
<thead>
<tr>
<th>Key issues and risks</th>
<th>Potential solutions/best practices</th>
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<tbody>
<tr>
<td>The initial absence of a clear process of results delivery may create loopholes for corruption to flourish in the absence of appropriate accountability mechanisms.</td>
<td>CFs should be designed to ensure that objectives and milestones are adequately clear and connected. To this extent, it is crucial to include a performance milestone-based system of reimbursement and the design of a stringent financial oversight mechanism to manage disbursements and check grantee expenditure. These details must be shared with all stakeholders including donors and fund managers. Finally, depending on the objectives, CFs could follow a more structured planning including “windows” or themed/applicant-restricted rounds of calls for proposals to target new and different types of applicants and project ideas within the same fund.</td>
</tr>
<tr>
<td>The terms of reference of the call for applications could be biased to favour special interests, which can involve people inside or outside the development organisation.</td>
<td>Transparency in policies and procedures (Tanzi 1998) acts as a basis for the drafting of clear objectives and aims in the calls of proposals.</td>
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<tr>
<td>A tender may be designed so that it puts excessive weight on a particular criteria met by one company/organisation or to the exclusion of undesired participants (Moody-Stuart 1997).</td>
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<tr>
<td>A particular challenge could be drafted to favour a potential grant holder with expertise in the field, or an applicant could access key information before the call for proposals is published. One or more applicants may pay bribes to access that information, giving them more time to write a grant proposal, or there could be other competitive advantages such as strong partnership building and networks.</td>
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<tr>
<td>A challenge could be designed to facilitate personal rents or shaped to favour certain applicants, basing on kinship ties or political allegiance. In the absence of transparent rules, people entrusted to design the challenge may use their discretionary powers to favour friends, relatives or political supporters (Trapnell et al. 2017: 41).</td>
<td>Limitation of discretional power by dividing large decisions into separate single tasks (della Porta and Vannucci 2001).</td>
</tr>
</tbody>
</table>
In general, it is good practice to assess the context in which CF projects will operate, anticipating as much as possible the possible requirements for non-monetary support such as technical assistance and capacity building. Furthermore, differences in context may entail different vulnerabilities to particular forms of corruption, and this has to be taken into account in the risk-assessment process.
Calls for proposals

A call for proposals is a procedure launched for private enterprises and/or civil society organisations to identify solutions to one or more development problems.

**Table 2: corruption risks and mitigation measures during the call for proposals phase**

<table>
<thead>
<tr>
<th>Key issues and risks</th>
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</tr>
</thead>
<tbody>
<tr>
<td>High levels of discretion on the part of the steering committee can result in the limited dissemination of the call for proposals, limiting the number of applicants or even de facto restricted procedures in which only a few favoured potential bidders are invited to participate. These practices may facilitate the use of bribery, abuse of power and conflict of interest (Søreide 2002), especially when the application period is intentionally kept very short to limit competition (Andvig 1994).</td>
<td>Clear eligibility criteria that define the rules of the competition, as well as transparent selection criteria to determine how the winners are chosen. The detail level of these criteria depends on the clarity of CF objectives (see design phase). In addition, seek to simplify rules, as unclear or ad-hoc rules create loopholes for corruption (Søreide 2002) and can be easily adjusted to favour one particular grantee.</td>
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<tr>
<td>Requirements included in the call for proposals may be tailored to specific organisations rather than to obtaining the best outcomes from the actions. According to IPE Triple Line (2018) there have been cases of procurement managers involved in challenge funds who received gifts from the suppliers to influence the procurement manager to make several orders from the company, purchase larger quantities or additional products.</td>
<td>System of performance rating done by independent entities, which allows the shortlisting of potential grant holders based on their reputation and past experience. This should reduce risks of malfeasance while improving efficiency. It will also encourage future applicants to invest and innovate to improve their “performance rating” (Rose-Ackermann 1999).</td>
</tr>
<tr>
<td>Fund managers may decide to disclose confidential information to one or more participants in exchange for a personal benefit. Knowing parameters in advance, such as technical value, times of execution and costs of utilisation may be crucial in the application process. As della Porta and Vannucci point out (2001: 9-10), knowing in advance some of the evaluation parameters may be decisive for obtaining a contract in a perfectly legal way.</td>
<td>Collusive agreements are facilitated by well-established connections and information channels. In this sense, Lambsdorff (2000; 2001a; 2001b) suggests that anti-corruption strategies should focus on ensuring a high degree of “disturbance” of personal agreements. One measure in this sense is the rotation of employees, which limits the collection of discretional power and informal connections.</td>
</tr>
<tr>
<td>The general principle for reducing corruption risks in the call for proposals is a transparent intervention logic, which takes into account pathways for outcome deliverance, and a strategy to support organisations in this process. It is also important to determine rules for emergency situations that could require the skipping of standard procedures to complete tasks in time. In this sense, rules should still exist, but be kept as simple as possible. It is therefore important to provide an exact definition of the term “emergency”. Consider the introduction of insurance coverage and payments of deposit to protect both donors and grant holders against non-fulfilment or other circumstances (della Porta and Vannucci 1999).</td>
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</table>
Selection process
This step includes the evaluation of the quality of proposals and the selection of the successful applications. This stage is particularly vulnerable to corrupt practices as it entails higher degrees of discretion in the evaluation of the proposals.

Fund managers are in charge of the screening and evaluation of grant holder applications. This process usually follows a two-stage process: a concept note followed, if successful, by a full proposal.

Table 3: Corruption risks and mitigation measures during the selection phase

<table>
<thead>
<tr>
<th>Key issues and risks</th>
<th>Potential solutions/best practices</th>
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</thead>
<tbody>
<tr>
<td>While it appears clear the selection stage is highly vulnerable to bribes to favour a particular applicant, other forms of corruption common in this phase may include kinship ties or political allegiance, which depend on the local context.</td>
<td>Selection processes must be based on clear procedures and robust selection criteria to ensure consistency, fairness and transparency of decisions. These mechanisms may include standard scorecards, peer review processes and qualitative evaluation methods to ensure the maximum level of transparency while narrowing the evaluators’ margins of discretion.</td>
</tr>
<tr>
<td>According to Chêne (2015), the main facilitators of corruption in the processes of selection include unchecked discretionary power, lack of integrity and accountability, checks and balances, and transparency.</td>
<td>Consider employing a multi-stage assessment processes (submission of concept note, shortlisting by an independent investment panel and then submission of full proposal) to exclude ineligible applications or those that do not meet minimum quality standards.</td>
</tr>
<tr>
<td>One typical case relates to an officer in charge of the selection process favouring one or more applicants in exchange for bribes or personal gains, or choosing applications from family members.</td>
<td>Use of an independent investment or selection committee, at least for the production of a short-list of applicants. However, experience in CFs has shown that it is appropriate for the donor to exercise a “no objection” approval approach (IPE Triple Line 2018).</td>
</tr>
<tr>
<td>A main vulnerability during the selection process involves fund managers, who have very specific information on the selection criteria and are therefore susceptible to bribes to provide more information about the selection process than what is publicly available. This situation may be difficult to identify as</td>
<td>Require a declaration of conflicts of interest for the members of the committee to uncover any personal/political connections between donors, selection committees and grant holders. Note that details on the investment panel/selection committee members should be kept confidential to avoid applicants attempting to pressure or bribe members for positive assessments.</td>
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<td>Include all the parameters of evaluation in the announcement of the decision to provide unsuccessful applicants with all the necessary information about the evaluation results.</td>
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<td></td>
<td>Appropriate due diligence checks to assess the compliance of short-listed applicants with all the regulations and financial information (if required) (Lindner 2014; ICC 2015). In CFs, fund managers are in charge of due diligence checks on grant holders to assess whether their policies adhere to donor requirements (i.e. financial management and accounting practices and systems, child protection, environmental protection, etc).</td>
</tr>
<tr>
<td>Transparency in the selection processes to mitigate the risk of officials using their discretionary powers to favour applicants in the process.</td>
<td>Implementation of a procedure for the identification of anomalies such as selective provision of information, biased information and the general compliance with</td>
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Fund managers often provide ad-hoc support to potential applicants to help them develop stronger applications.

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<tr>
<th>Disclosure of any capacity building activities that include co-development of results frameworks and identification of performance-related milestones.</th>
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When it comes to enterprise CFs, there may be integrity risks related to the additionality of cost-shared projects. In other words, the investment might have taken place anyway without support from the CF.

<table>
<thead>
<tr>
<th>DCED (2014) provides a list of indicators to assess additionality of a project proposal, including:</th>
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<tbody>
<tr>
<td>i) insufficient funds to self-finance the project (within a reasonable timeframe);</td>
</tr>
<tr>
<td>ii) lack of knowledge/competencies to design and/or implement a business model in a way that maximises poverty-reducing or other (economic) development impacts;</td>
</tr>
<tr>
<td>iii) perceived negative balance of costs/risks and benefits which could make the company unwilling to implement the business model without the development subsidy;</td>
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<tr>
<td>iv) difficulty to access financial credit;</td>
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<tr>
<td>v) the cost-shared project does not damage other companies already operating in the market, or that are ready to undertake the same project without public support;</td>
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<tr>
<td>vi) the contribution does not duplicate other donor-funded support;</td>
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<tr>
<td>vii) public support leverages investment by other entities that would otherwise not be forthcoming.</td>
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</tbody>
</table>
U4 Anti-Corruption Helpdesk
Assessing corruption risks in challenge funds

10

Funding agreement
The funding agreement is a legal document that outlines terms and conditions of funding, service delivery, accountability for both the donor and funded organisations. This step also includes the contracting procedure (with associated terms and conditions), which usually takes place in the confirmation of the funding agreement.

Table 4: corruption risks and mitigation measures during the funding agreement phase

<table>
<thead>
<tr>
<th>Key issues and risks</th>
<th>Potential solutions/best practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>The set-up of clear terms and conditions at this stage is critical for mitigating corruption risks. Where funding arrangements with grant holders are unclear, there is greater risk of corruption.</td>
<td>Clear terms and conditions of funding and payment mechanisms to encourage good performance and accountability, while also recognising the limitations of organisational capacity and providing support to enhance capacity where required (Søreide 2002; Rose-Ackermann 1999). This measure is also helpful to ensure that the grant holder is accountable for the funds allocated. Ensure clarity of funding arrangements with grant holders. Options include full grants, incorporating loan elements alongside grants or securing a level of matched funding from grant holders.</td>
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<tr>
<td>The funding agreement contains no provisions related to corruption, and does not stipulate that the contract becomes invalid where corruption or malfeasance occurs.</td>
<td>Chêne (2010) provides a list of anti-corruption measures to be integrated in funding agreements. This list includes: i) common definitions of corrupt practices to ensure that any corrupt or fraudulent occurrences are recognised as such by all parties; ii) preliminary corruption risk assessment to be included in the agreement providing a baseline for the extent and type of corruption risks involved in the project.</td>
</tr>
<tr>
<td>Fund managers may be vulnerable to corruption to allow larger delivery settings or low-accountability conditions to a particular grant holder. This could affect the quality of the outputs.</td>
<td>Implementation of a control system over the review and approval of the funding decision, and clear delineation of roles and responsibilities (Savedoff 2008).</td>
</tr>
<tr>
<td>Fund managers could be vulnerable to corrupt practices for agreeing favourable funding conditions to grant holders.</td>
<td>Alignment of the funding agreement with the forecasted budget. For enterprise CFs, it is essential to ensure that cost-sharing is applied as it creates a commitment from the applicant and also provides leveraging of donor funding. This will include requirements for the grant holder to finance at least 50% of the total project cost to mitigate risks of embezzlement.</td>
</tr>
<tr>
<td>Potential supplementary work is not regulated.</td>
<td>The funding agreement should provide a definition of supplementary work, clarifying the procedures (i.e. can the work be done by the same organisation or does it have to go through a procurement procedure?) on which this could be conducted, which should reduce the risk of malfeasance (Andvig 1994).</td>
</tr>
</tbody>
</table>
Grant management

Grant management includes all the administrative tasks that need to be completed during the timeframe of the grant. Applicants should complete the activities and deliverables according to the timetable to comply with its terms. This step is at the core of the CF cycle as it entails the action management and the services delivery.

At this stage, lack of oversight of fund managers may result in a misuse of resources, which could hamper the overall quality of the output. Andvig (1994) observes how bribes can be paid before the funding agreement is signed to obtain promises of changes and additions to the work so that the enterprise can win the bid with an inferior offer. One or more evaluators could also be bribed to ignore a specific part of the activities not explicitly mentioned in the contract, or manipulate tasks to be counted as supplementary work. Decision makers can delete parts of the contract after the applicant has won the tender, for their own personal benefit.

Table 5: corruption risks and mitigation measures during the grant management phase

<table>
<thead>
<tr>
<th>Key issues and risks</th>
<th>Potential solutions/best practices</th>
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<tr>
<td>Della Porta and Vannucci (2001:14-20) warn that legitimate procedures such as price revisions and other modifications to the contract may be motivated by corruption. Grant extensions, additional funding revisions, programme revision, budget modifications and administrative revisions could all represent risk factors. That is because these circumstances often feature high levels of discretion (i.e. direct negotiations), especially when available information is limited. At this stage, the fund manager has the role of assessing whether amendment requests are justified and should provide detailed explanations to the donor. Fund managers could therefore be vulnerable to risks of bribes and conflicts of interest. For example, an official in charge of grant management could be bribed to manipulate decisions on modifications to the original project, or to include unnecessary additional work. The use of additional work, in particular, could increase the income of an organisation working on a project, especially when rates for supplementary work are clearly specified in the funding agreement.</td>
<td>Amendments to budgets and the timing of milestone activities are often necessary for successful project implementation, especially in innovative projects, as technical and environmental issues may arise, requiring modification to the originally envisioned project. While it is natural, to a certain extent (especially for innovative, cross-cutting projects such as CF) to meet challenges which require a change of conditions after the contract has been drawn up, it is necessary to implement oversight measures for corruption risks. In particular, irregular changes should be limited and regulated through standard procedures (OECD 2016). Implement mechanisms to track grant revisions, ensuring the consistent compliance with the aims and objectives outlined in the funding agreement (della Porta and Vannucci 2001; Jain 1998). Oblige grantees to accurately report and document any modification in the design of criteria. The risk of bribes or favouritism should be moderated by independent audits funded by donors.</td>
</tr>
<tr>
<td>Embezzlement is one of the most common types of corruption in grant management. According to the Norwegian Foreign Service Control Unit in the Ministry of Foreign Affairs, in 900 financial anomalies from partners in the global south since 2007, the majority involved a misuse of grant funds, typically embezzlement (Merkle 2017).</td>
<td>Implement a system of control and risk analysis, and screen the payment transactions through the use of electronic data and random audit (Costantino 2018) to avoid the creation of false invoices or receipts to increase expenditure. This would also include verification of expenditures exceeding a certain amount.</td>
</tr>
<tr>
<td>Grant holders may also create “ghost” employees and beneficiaries to increase the costs of project activities, thereby embezzling funds (Trivunovic et al. 2011).</td>
<td>Include third parties (such as expert groups, CSOs, experts) in monitoring the processes of fund distribution (Andvig 1994). These can be external organisations that conduct baseline and endline surveys or use random procedures to interview beneficiaries through external evaluation.</td>
</tr>
<tr>
<td>Grant holders may need to outsource external expertise or equipment to conduct part of their activities. The interaction with external suppliers of goods or services could then entail a risk of bribes, clientelism and conflicts of interest, in particular during the process of procurement (Trivunovic et al. 2011). This is even more likely in the case of innovative projects where little evidence has been achieved so far, or in highly technical areas which involve a limited number of bidders; in these cases, the risk of collusion or kick-back is higher.</td>
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</table>
Monitoring, evaluation and learning

This is the final step of the CF cycle, which entails a review of the achieved objectives and activities and to assess whether the funded project has produced the expected results, delivered desired benefits and made the planned changes.

Specifically, monitoring assesses: i) project performance through grant holder self-reporting, desk-based report appraisals, and field visits by fund managers; ii) aggregate portfolio performance and monitoring of how the fund portfolio of projects in any given year performed; iii) fund management performance against key performance indicators and milestones agreed with the donor and measured annually.

Evaluation consists of two main activities that are mainly conducted by fund managers: first, to facilitate any external evaluator’s work (i.e. providing access to information); second, to provide guidance to grant holders on commissioning their own independent evaluation when their projects are drawing to a close and on drawing on the findings in their final report to the donor.

Learning is the final phase and consists of the understanding of what worked and what did not (Triple Line and University of Bath 2014c)

Table 6: corruption risks and mitigation measures during the MEL phase

<table>
<thead>
<tr>
<th>Key issues and risks</th>
<th>Potential solutions/best practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>The monitoring and evaluation of the grant process outcomes involves a high degree</td>
<td>Implement standard procedures to monitor grant performances, and methodologies of evaluation</td>
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<tr>
<td>of discretion for decision makers and considerable risks of corruption. For example,</td>
<td>(Andvig 1994; Chêne 2010).</td>
</tr>
<tr>
<td>a corrupt fund manager could agree to close the project and disburse the remaining</td>
<td>Optimise staff resource allocation to ensure each project is monitored.</td>
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<tr>
<td>funds when some deliverables or parts of the contract were not met or to ignore parts</td>
<td>Conduct random audits and quality assurance visits to mitigate the risk of invoicing frauds.</td>
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<td>of the contract that have not been addressed.</td>
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<tr>
<td>Impact results can be subject to manipulation, such as variations in the sample</td>
<td>Focus on results and provision of methodologies for their measurement. Third parties should also</td>
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<tr>
<td>sizes or control groups, to achieve the desired outcomes (The Union of Concerned</td>
<td>be used at this stage to evaluate the quality of results and their conformity with the activities</td>
</tr>
<tr>
<td>Scientists 2012: 15).</td>
<td>conducted during the project.</td>
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<tr>
<td></td>
<td>In private sector CFs, an independent system to monitor and evaluate poverty impacts is required as this is outside the scope of what businesses do (Triple Line and University of Bath 2014c).</td>
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</tbody>
</table>

In general, reducing the risk of corruption in the monitoring and evaluation phase requires a clear focus on progress toward the intended outcome and impact. In its evaluation of global challenge funds, Sida focused on the implementation of a robust result measurement system to reduce reporting bias and discretion, which represents one of the main triggers for corruption (IPE Triple Line, 2018).
Cross-sectional strategies to reduce corruption risk

Besides the specific measures and best practices presented for each steps of the cycle, the following cross-sectional strategies play a key role in ensuring the efficiency of the overall anti-corruption strategy. Furthermore, these strategies are a basis for a compliance of the measures presented in the previous paragraphs, and can be summarised as follows:

- **Codes of conduct**: officials need to commit to high standards of integrity. Organisations may commit to implementing a code of conduct for their employers (Whitton 2009) to provide guidance on how to confront anti-corruption issues, legal issues and policies, and a general respect for national laws. This code needs to be written in a single document, with clear rules and penalties in case of violation.

- **Ethical training**: fund managers and grant holders should be provided with a code of ethics. This avoids actors rationalising their acts by neutralising the outcomes and thus seeks to remove the ability to make excuses. The commitment to ethical standards is also important to set clear rules and to highlight the importance of key integrity challenges and identify and manage improper conduct (Chêne 2015). This can include mobile training, different language versions, more interpersonal interaction, space to share experience and rapid feedback.

- **Whistleblowing protection to foster the reporting of corruption**: whistleblowers are key to anti-corruption as they facilitate the reporting of passive bribery as well as the misuse of public funds, waste, fraud and other forms of corruption. Thus, according to OECD (2012), corruption risk is considerably higher in organisations that do not have systems to protect whistleblowers.

- **Complaint mechanisms to provide internal staff and citizens with mechanisms to report suspicious conduct which may lead to further investigation and sanctions.**

- **System for a multi-level assessment and management of corruption risks**, integrating risk assessment within the CF cycle and assuring analysis and a review of risks throughout the cycle, using tools such as risk registers. The assessment should take into account the context of activities so that actions are designed with ad-hoc anti-corruption measures (Chêne 2015). This is important to understand the risks associated with the fund at all levels, such as operating environmental risks, financial mismanagement and weak grantee implementation capacity.

- **Effective system of sanctions**, including measures such as suspension or termination of the contract or reimbursement clauses in a proportionate and dissuasive way, with transparent criteria of their application.
Annex: Relative risk of different forms corruption across CF project cycle

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References


Merkle, O. 2017. Corruption Risks in Research Funding in Developing Countries.


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Partner agencies

DFAT (Australia), GIZ/BMZ (Germany), Ministry for Foreign Affairs of Finland, Danida (Denmark), Sida (Sweden), SDC (Switzerland), Norad (Norway), UK Aid/DFID.

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The U4 anti-corruption helpdesk is a free research service exclusively for staff from U4 partner agencies. This service is a collaboration between U4 and Transparency International (TI) in Berlin, Germany. Researchers at TI run the helpdesk.

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